MODERN CORPORATE REPORTS

TO STOCKHOLDERS, EMPLOYEES AND THE PUBLIC

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TO STOCKHOLDERS, EMPLOYEES AND THE PUBLIC

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LILLIAN DORIS

CO-AUTHOR: CORPORATE MEETINGS, MINUTES AND
RESOLUTIONS; CORPORATE SECRETARY'S MANUAL AND GUIDE; CO-EDITOR: BUSINESS
EXECUTIVE'S HANDBOOK

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To

CHARLES W. GERSTENBERG

WHO HAS UNCEASINGLY GIVEN ABUNDANT INSPIRATION TO HIS STUDENTS, WARM UNDERSTANDING TO HIS ASSOCIATES, AND REGARD AND AFFECTION TO HIS FRIENDS

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PREFACE

Each new annual report is a challenge to present an informative story in the most interesting and understandable way. Since interest wanes with repetition of an idea, most report writers vary even the most attractive portions of their annual reports from year to year. Because of this practice, this book has been developed principally as an ideas book for those who participate in writing annual reports. The ideas plan is especially noticeable in Chapters 5 through 13, dealing with reporting on specific subjects. In each of these chapters the following five-part scheme has been followed in presenting ideas:

1. Checklists of what to cover in the commentary or text.
2. Checklists of ideas for charts and graphs.
3. Ideas for statistical presentations.
4. Selected excerpts from actual annual reports.
5. Reproductions of graphic illustrations.

In preparing this book, the broadest view has been taken of the purposes to be served by modern annual reports. The annual report has been regarded as an instrument for telling the company story to stockholders, employees, and anyone who should be interested in it. It has been looked upon as a medium for establishing goodwill for the reporting company and for business generally. Since one of industry's major tasks in gaining public goodwill is to counteract attacks against private enterprise, every opportunity has been taken to point out places in the annual report where brief explanations of fundamental economic truths can be appropriately and effectively included. Many excerpts have been used to demonstrate how these truths can be set forth simply and convincingly.

The author acknowledges with thanks the valuable assistance given her by the individuals and companies listed in the following pages. They include the people and firms who participated in the surveys conducted by the author and who offered help through personal interviews, correspondence, and in other ways. The author also acknowledges to thousands of unidentified companies her thanks for the annual reports they made available and for the ideas gleaned from them.

Special thanks are due to Weston Smith, who read several chapters of the book and helped considerably with his suggestions and criticisms; to Dr. Frederick E. Croxton, Professor of Statistics, Columbia University, who reviewed the explanations of charts and graphs in Chapter 16; to Besse May Miller, who did some of the research on stockholder relations for Chapter 18; and to Dr. Rudolph Flesch, who wrote Chapter 15. The editorial staff of Geffen, Dunn & Company studied the major part of the text and offered a wealth of constructive criticism based on its experience in planning and writing annual reports for leading corporations. Geffen, Dunn & Company also gave valuable assistance in planning the typography of the book. The author is indeed grateful for all this help.

Lillian Doris

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Allied Stores Corporation
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American Box Board Company
American Can Company
American Colortype Company
American Encaustic Tiling Company, Inc.
American Hard Rubber Company
American Hawaiian Steamship Company
American Home Products Corporation
American Locomotive Company
American Machine & Foundry Company
American Management Association
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The American Rolling Mill Company
American Telephone and Telegraph Company
American Type Founders, Inc.
Anaconda Copper Mining Company
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Ayershire Collieries Corporation
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Bangor and Aroostook Railroad Company
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Beatrice Foods Co.
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Bendix Aviation Corporation
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Burroughs Adding Machine Company
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California Packing Corporation
Calumet and Hecla Consolidated Copper Company
Canada Dry Ginger Ale, Incorporated
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Ray Carr Organization
Carrier Corporation
J. I. Case Company
Caterpillar Tractor Co.
Celanese Corporation of America
Central Power and Light Company
The Central Railroad Co. of New Jersey
Century Ribbon Mills, Inc.
The Champion Paper and Fibre Company
Cherry-Burrell Corporation
The Chesapeake and Ohio Railway Company
Chesebrough Manufacturing Company, Consolidated
Chicago and North Western Railway Company
Chile Copper Company
Chrysler Corporation
Cincinnati Gas & Electric Company
Cities Service Company
Clark Equipment Co.
Cleveland Electric Illuminating Co.
The Cleveland Graphite Bronze Company
The Coca-Cola Company
The Coleman Company, Inc.
Columbia Gas & Electric Corporation
Commonwealth Edison Company
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Consolidated Natural Gas Company
Consolidated Vultee Aircraft Company
Continental Baking Company

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The Crowell-Collier Publishing Company
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Delta Air Lines Incorporated
The Detroit Edison Company
The Diamond Match Co.
Dickie-Raymond Incorporated
Dictaphone Corporation
Walt Disney Productions
Dixie Cup Company
Dominion Stores, Limited
Doremus & Company
Douglas Aircraft Company, Inc.
W. L. Douglas Shoe Co.
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Eastern Stainless Steel Corp.
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The Emporium Capwell Co.
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Ford Motor Company of Canada Limited
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Geffen, Dunn & Company
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General Bronze Corp.
General Electric Company
General Finance Corporation
General Foods Corporation
General Mills, Inc.
General Motors Corporation
General Outdoor Advertising Co., Inc.
General Railway Signal Co.
General Refractories Company
General Shoe Corporation
General Telephone Corporation
Georgia Power Company
Gerber Products Company
Gimbel Brothers
Goldblatt Bros., Inc.
B. F. Goodrich Company
The Goodyear Tire & Rubber Company
H. T. Grant Co.
Graphics Institute
The Gray Manufacturing Company
Great Northern Railway Company
H. L. Green Co., Inc.
The Greyhound Corporation
Gulf, Mobile & Ohio R.R. Co.
Haloid Company
Hamilton Watch Co.
Hammermill Paper Company
Harris Seybold Co.
The Hartford Gas Co.
A. Hollander & Son, Inc.
Houdaille-Hershey Corporation
Humble Oil & Refining Company
Hunt Foods, Inc.
The Hydraulic Press Manufacturing Company
Imperial Oil Limited
Inland Steel Company
International Cellucotton Products Co.
International Harvester Company
International Minerals & Chemical Corporation
International Paper Company
International Telephone and Telegraph Corp.
Iron Fireman Manufacturing Company
The Jam Handy Organization
Jantzen Knitting Mills, Inc.
Jewel Tea Co., Inc.
Johns-Manville Corporation
Joy Manufacturing Company
Roger Kafka
Kaiser-Frazer Corporation
J. H. Kelleghan & Company
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Keystone Steel & Wire Co.
Kottcamp & Young
La Plant-Choate Manufacturing Co., Inc.
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Minneapolis Honeywell Regulator Company
Missouri-Kansas-Texas Lines
Monsanto Chemical Company
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Nash-Kelvinator Corporation
The National Breweries Limited
The National Cash Register Company
National Container Corporation
National Dairy Products Corporation
National Gypsum Company
National Lead Company
The National Process Company, Inc.
The National Sugar Refining Company
National Vulcanized Fibre Company
The New Jersey Zinc Company
New York Central System
New York State Elec. & Gas Corp.
New York Stock Exchange
Newport News Shipbuilding & Dry Dock Co.
Niles-Bement-Pond Company
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Opinion Research Corporation
Otis Elevator Company
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The Pennsylvania Railroad Company
Pennsylvania Telephone Corporation
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Pfeiffer Brewing Company
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Plough, Inc.
Provident Mutual Life Insurance Company of Philadelphia
The Psychological Corporation
Public Service Corp. of N.J.
Puget Sound Power & Light Co.
Pullman Incorporated
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Reading Company
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Riegel Paper Corporation
Rochester Gas and Electric Corporation
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The Ruberoid Co.
San Diego Gas & Electric Co.
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Schenley Distillers Corporation
Scott Paper Company
Seaboard Air Line Railroad Company
Seattle Gas Company
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Signode Steel Strapping Company
Joachim Silbermann
Simmons Company
Skelly Oil Company
Skilsaw, Inc.
Weston Smith
Snap-on Tools Corporation
Socony-Vacuum Oil Company Incorporated
South Carolina Electric & Gas Company
Southern Bell Telephone and Telegraph Company Incorporated
Southern Natural Gas Company
Southern Pacific Company
Sprague Electric Company
E. R. Squibb & Sons
A. E. Staley Manufacturing Company
Standard Oil Company of California
Standard Oil Company (Indiana)
Standard Oil Company (New Jersey)
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Sunray Oil Corporation
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Swift & Company

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Union Bag & Paper Corporation
Union Carbide and Carbon Corporation
Union Oil Company of California
United Aircraft Corporation
The United Electric Coal Companies
United-Rexall Drug, Inc.
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HOW TO PREPARE A MODERN ANNUAL REPORT

Annual reports have come a long way from the straight statistical presentations of financial statements that constituted a typical annual report in the thirties. Today, while some companies still issue stereotyped, uninspiring reports, more and more companies are sending out annual reports that invite attention with good artwork, good layout, good paper, good typography, good printing, and good reporting. The trend is not only toward more attractive and readable reports, but also toward giving frank and understandable accounts of the progress of the company and full information about operating results and financial condition.[1]

The principal reason why the annual report has been modernized and humanized is: Top executives have learned that it can serve several purposes besides the obligation to report to the stockholders. It can:

1. Build stockholder interest in the company.
2. Create better understanding between the company and its employees.
3. Improve industrial public relations.

PROGRESS IN IMPROVING ANNUAL REPORTS

The most complete information on the movement toward better annual reports comes from *The Financial World.* Since 1940 this magazine has conducted an annual survey of stockholder annual reports. Its vice-president and business editor, Weston Smith, originated the survey and has reported annually on the findings of the study.

The survey is restricted to annual reports of corporations (excluding mutually owned financial institutions [savings banks, insurance companies, and savings and loan institutions], trade associations, municipalities, etc.) with principal offices in the Western Hemisphere. Each year corporations submit their annual reports to *The Financial World* for review. Out of the mass of reports received, the magazine makes a selection for the yearly contest that is part of the survey. The selections are judged on the basis of editorial, financial and statistical content (60%), and format, typography and illustrations (40%). If a report achieves a total of 90% in these two divisions, it is classified as "Modern" and it qualifies for a "Merit Award." The balance of the reports are then studied to determine whether they classify as "Improved." Each report is compared with its predecessor of ten years ago, and if it shows reasonable improvement, it is awarded "Honorable Mention." If a report has not changed materially, it is classified as "Unchanged" even though the report may have been modern for its time ten years ago.

Annual reports that qualify for "merit awards" are classified according to industries and are then judged by an independent committee. The report judged "Best" in each of one hundred industrial classifications is awarded a bronze "Oscar of Industry" at the Financial World Annual Report Awards Dinner in October. Silver "Oscars of Industry" are given to the four corporations whose reports are judged "Best" in four broad classifications: Manufacturing; Public Utilities; Transportation; and Financial, including banks, insurance companies, and the like. One of these is judged "Best of All Industry" and awarded the golden trophy. The following annual reports have won gold Oscars: 1946, Missouri-Kansas-Texas Railroad Company; 1945, Chesapeake & Ohio Railway Co.; 1944, Caterpillar Tractor Co.; 1943, Brown & Bigelow.

The following tabulation and chart, reproduced through the courtesy of *Financial World,* show the progress of improvements in annual reports since 1940. This progress may give the im-

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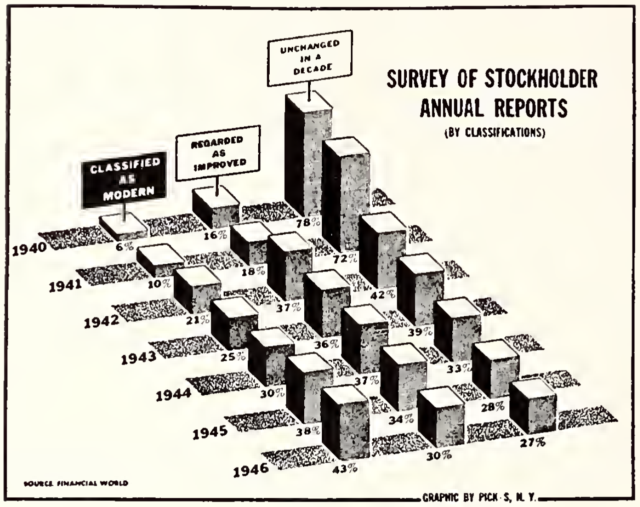
[1] For influences leading to this trend, see page 176. For a brief history of the beginnings of annual reports, see *Fortune,* February, 1944.

	Modern		Improved		Unchanged		Total
Year	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*
1940	16	6	65	16	169	78	250
1941	46	10	92	18	362	72	500
1942	162	21	280	37	308	42	750
1943	254	25	361	36	385	39	1,000
1944	372	30	457	37	421	33	1,250
1945	581	38	524	34	395	28	1,500
1946	758	43	526	30	466	27	1,750



SURVEY OF STOCKHOLDER ANNUAL REPORTS (BY CLASSIFICATIONS)

SOURCE FINANCIAL WORLD

GRAPHIC BY PICK-S, N. Y.

Fig. 1

pression that we have not far to go before all corporations will have made the transition from the old-style reporting to the new. That is not so. At least two out of three corporations are still sending their stockholders cut-and-dried certified financial statements as their annual reports. They are overlooking the opportunity to make an effective public relations instrument of the annual report.

WHAT AN ATTRACTIVE REPORT CAN DO

Corporations that have not changed the style of their annual reports to fit the times will, of course, measure the advantages of an attractive report against the cost and trouble of modernizing the old one.

Here is what an attractive report can do if it is planned, designed, compiled, written, and distributed to get the maximum benefit from it. It can:

1. Make friends for the corporation among all the groups with whom the company has any contact—stockholders, prospective investors, employees, customers, creditors, suppliers, distributors, dealers, bankers, rating agencies, investments advisers, newspaper editors, financial writers. When it has made friends with individuals in these groups, it has made friends among the general public.
2. Create a confidence in the corporation that will discourage hasty liquidation of its securities, whatever the provocation.
3. Add prestige to the corporation.
4. Mark the management as progressive.
5. Interest stockholders in promoting the company's products and services.
6. Create fresh investor interest in the company.
7. Give the corporation an opportunity to tell what it has accomplished, what it is prepared to do, and what it stands for.

ADVICE FROM COMPANIES THAT RECENTLY MODERNIZED REPORTS

A survey was made recently among a group of companies that had just completed their first comprehensive, illustrated, annual reports in order to get some hints that might help others with their first efforts. From the findings, the following conclusions can be drawn:

1. The ease with which the first modern report is gotten out depends upon such factors as:
   (a) The extent of the change. Several respondents recommended that the change should not be too drastic the first year. A better plan, they say, is to make the changes over a period of years.
   (b) Whether the company uses an outside agency, such as a public relations firm or specialized advertising agency, and how much of the job it turns over to such an agency. See page 3.
   (c) How much time has been allowed for getting out the report. It must be planned well in advance of the publication date.
   (d) The experience of the people assigned to work on the report. One respondent, who used no outside agency, advised that some individual, preferably one with financial and editorial experience, should be assigned to work with the top financial officer who is responsible for the report. This individual should be given specific and full authority for the project and should be relieved of other major duties while he is working on it.

Loose or informal assignments among several groups on a part-time basis may lead to irreparable last-minute oversights.

2. It may take from three to ten times as long to prepare a comprehensive report as it does a simple one, depending upon the extent of the change. One company said it took about thirty additional days, of which fifteen were due to the use of color. Color printing required submission of final copy some fifteen days in advance of the mailing date, whereas black and white printing had required only three or four days.
3. The work should be started well in advance and a time schedule should be set up. This subject is discussed fully at page 5.
4. Professional talent for format, layout and art work is indispensable.

WAYS TO PREPARE A MODERN REPORT

The best annual reports are gotten out in one of the following ways:

1. The company does the whole job itself, except for the art work and printing.
2. The company employs the services of an independent firm that specializes in producing annual reports and other public relations literature. The firm may or may not be a printer.
3. The company employs a printer who furnishes a specialist in annual reports (one of the printer's regular employees) to help with production.
4. The company prepares all of the material for the report and then employs an expert typographic designer to put it into attractive form. This expert furnishes the dummy, selects the type faces, suggests the treatment of the cover, prepares the charts, graphs and illustrations, and approves the engravings, composition and art work from beginning to end. The actual printing is done by a printer selected by the company.

WHO PREPARES THE ANNUAL REPORT

A corporate annual report that has been prepared by the company itself usually represents the combined efforts of all the officers of the corporation, the directors, the department heads, the accounting department, the legal counsel and bankers for the company. In many cases, the principal responsibility rests with a senior executive whose office acts as a clearing house for the collection of data to go into the report. It is from this office that the various drafts and proofs of the report are distributed. Information from 115 corporations on this point showed the following officers to be in charge of the annual report:

	Percentage of Total Replies
Treasurer	15
Secretary	11
President	10
Controller	10
Director of Public Relations	4
Others (including Chairman of Board, Assistant Treasurer, Assistant to President, Vice-president)	8
Joint group	42

In companies whose elaborate reports make use of color, pictorial covers, charts, diagrams, photographs, drawings and maps, the advertising department or the director of public relations plays an important part. If the report is basically an interpretation of the financial statements presented, the controller, treasurer or any other administrative officer who is closely associated with the accounting department is likely to have charge of it.

Invariably, the chief accounting officer and independent auditors are responsible for the preparation of the financial statements. Other statistical data are usually prepared by the statistical department, if there is one, or by the accounting department.

Data on products are generally furnished by the sales department, the advertising department, or the public relations officer.

When the report contains a section for each of the company's divisions, each department head is responsible for preparing pertinent information. Even if divisional information is included as part of the president's letter, the same is true.

PREPARATION BY INDEPENDENT AGENCY

The independent agency that specializes in producing annual reports may be an individual who undertakes to inspect personnel, properties, activities and records, and to write a report on the corporation.[2] Or it may comprise a staff of specialists who not only write the text of the report but plan and illustrate the booklet as well.

A few larger organizations specializing in this field are equipped to plan and produce annual reports in their entirety. Such integrated concerns frequently write a report, lay it out, and print and distribute thousands of copies. They are prepared to perform any or all of the operations of publishing a corporation report. A corporation may decide, for example, to have a member of its own staff write the message, and to use the independent agency to plan, illustrate and print the report.

ADVANTAGES OF INDEPENDENT AGENCY

The advantages of having an annual report prepared by an outside agency or annual report counselor are:

1. An outsider may approach the report from a perspective and avoid too much emphasis on detail. He is likely to prepare a report that reflects the philosophy of the business. To a corporation executive, his company's past history, present accomplishments and future plans are his world, his yesterday, today, and tomorrow. Having given his years and his energies, he does not think of *his* business objectively. He cannot write about it from a detached viewpoint. Like the company executive, the outside reader to whom the report is addressed lives in *his* own—but different—world and is interested in *his* particular set of problems, dreams and plans. Almost invariably, the devoted employee or executive will view his company from the standpoint of someone *inside*. But unless the report is written from the reader's viewpoint—in this case, the *outside* viewpoint—it may not be interesting to him and he may not read it.
2. The report is likely to be attractive in appearance. Artists skilled in design and illustration, and production men skilled in the use of type and the application of reproductive processes, can collaborate in preparing the report. The organization devoted to the preparation of annual reports will have staff artists or will know how to select free-lance illustrators who can prepare charts and pictures suitable to the subject of the report. In addition to their thorough familiarity with every element of design and execution, these specialists can deftly coördinate each key factor to achieve the desired total effect. A properly designed report will be pleasing to look at and easy to read. Treatment of text, illustration and decoration will strengthen the continuity of interest from page to page. Important points will be highlighted to catch the eye. The appearance of the entire report will not only invite reading but will also suggest the dominant theme of the work.
3. Much time of corporate officers and employees may be saved. Since outside experts know from long experience what data to look for, where to find it and how to handle it, they can often complete the report in less time than it would take an officer of the corporation. Speed is usually important, since the report must be distributed by a certain date. The agency knows how to coördinate the component parts so they all reach a production point on time to expedite the printing. Usually the financial statements do not come through until the last minute, but the experienced agency knows how to have everything ready to go to press when the statements arrive.
4. Printing costs are kept down when the planning is done by outside counsel. The saving is made through elimination of overtime.
5. The language is likely to be good because the copy is prepared by experienced writers.
6. The agency can, because of its experience with many companies' reports, make suggestions that would not occur to others.
7. The agency understands the cost of producing an annual report, and it can inform the company what to expect for an established budget. A great deal of time is thus saved in obtaining bids on art, engraving and printing. The same understanding can help to keep down the cost of "extras."
8. The agency is usually prepared to give advice as to economies in the mailing of the report.

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[2] The independent agencies described here do not refer to certain firms that are employed by corporations as public relations counsel. These firms help the appropriate corporate officers prepare and get out their annual reports. The work, however, is part of the regular operations of the agencies with their clients.

COST OF OUTSIDE AGENCY

Since the cost of preparing a report, whether by the corporation or by an outside agency, depends on many variables, it is difficult to make a general comparison between the two methods. If a corporation publishes an attractive, effective annual report that will achieve maximum results, it has to engage—or assign to the task—competent research workers, writers, artists and production men. The cost of organizing and compensating such a staff to produce a single report is frequently far greater than the cost of engaging a permanent organization that continually prepares annual reports for several clients. On the other hand, a large corporation that is accustomed to handling and preparing its own printed material may find it more economical to produce its own report.

Similarly, it is not easy to compare costs of time spent by top executives on a report prepared within the company with costs of their time if an outside agency is employed. In either event, considerable time must be devoted to discussion, review and criticism of content. If the members of the outside organization are capable, they will plan and execute their work so as to make minimum demands on the time of executives.

PROCEDURE WHEN OUTSIDE ORGANIZATION IS USED

The corporation's part in the preparation of an annual report by an outside organization is shown in the following procedure:

1. The company assigns one of its executive assistants to work with the annual report counselor in collecting information for the report. In some companies, the president himself performs this function.
2. When the representative of the outside organization visits the company he examines the plant and facilities and gathers all the information he needs from the various officials of the company. Or the top official may furnish the agency with a memorandum covering the information required for the report. Some companies make up the memorandum from the year's minutes of meetings of directors and committees, house organs, press releases and newspaper clippings. The memorandum covers such matters as earnings, increases or decreases in capital stock, dividends, acquisitions of companies, research, employee benefits—in fact, any of the subjects enumerated on page 18.
3. The annual report counselor submits a dummy layout to the company and makes suggestions as to format, size, use of color, photographs, and charts, subjects to be covered, and distribution of the report.
4. Conferences are held between the counselors and the company officials at which:
    (a) Matters of policy are discussed and decided.
    (b) The proposed outline is reviewed and changes made.
    (c) Size, style, format and cost are fixed.
5. The company furnishes all the statistical data required by the counselor. Photographs are taken. Work is started on the charts and illustrations.
6. The first draft of the text is written to fit the dummy furnished by the counselor. It is reviewed and put into final form.
7. The final copy is approved by the proper corporate officers, the board of directors, legal counsel, and the auditors.
8. The report is printed.
9. Copies of the report are delivered according to instructions. The major part may be delivered to the bankers or transfer agent for distribution to the stockholders.

One or more representatives of the outside organization usually supervise and coördinate each of the steps in the preparation of the report. As in the case of a report prepared by the company itself, a schedule of when each part of the work is to be completed is generally made up by the outside organization.

SCHEDULE FOR PREPARATION

Most annual reports must be released by a certain date determined by the by-laws of the company, requirements of the exchange on which the stock is listed, or the regulations of the Securities and Exchange Commission. The usual provision is that the report must be in the hands of the stockholders a certain number of days before their annual meeting. Most companies hold their annual meeting in March or April, which leaves comparatively little time for the accountants to complete the work of closing the books and getting out the financial statements. Thus, the usual experience is that there is a great rush between the receipt of the financial figures and the final mailing date.

The first protection against last-minute rush is the preparation of a master schedule that fixes the date for each step in the preparation of the report. Individual subschedules may be prepared for separate departments if necessary. The best practice is to prepare the time-table by working backward from the mailing date and estimating the minimum time required for each step. Invariably, factors beyond the control of those who make the time-table will upset it; the schedule usually has to be revised once or twice during the preparation of the report. It is most important, therefore, to start early.

In the majority of companies that mail reports based on calendar-year operations, active planning begins early in December; in some companies, the active work begins in late September or early October. If a substantial change in style is contemplated, work must be started about six months earlier than usual. Some companies suggest beginning a year in advance if changing from a conservative to a full-blown modernized report.

A schedule serves the following purposes in addition to assuring publication on time:

1. Prevents the omission of any step.
2. Assures steady application to the job.
3. Impresses those who are responsible for gathering material with the necessity of keeping to the schedule.
4. Permits the person responsible for the report to show superior officers the status of the report at any moment.
5. Furnishes a guide for the following year.

ILLUSTRATION OF SCHEDULE

The schedule shown on pages 7 and 8 is used by a large company that prints 80,000 copies of its annual report. The report in this instance contains twenty-four pages, made up of eight pages of text, two pages of statistical data, the auditor's report, fourteen pages of financial statements and notes, plus a directors' page on the inside cover. The responsibility for the preparation of the report is in the hands of the assistant secretary who works under the supervision of the secretary. Although this company follows the practice of having the report set in type in New York City, where the officers are located, and of having the printing and mailing done in another city, the schedule is readily adaptable to companies that do not follow this procedure. The schedule makes provision not only for the dates when the various drafts are to be submitted to the officers and heads of departments and when the report is to be finally mailed, but provides as well for the ordering of paper, the writing of newspaper releases, the mailing of preliminary copies, and other matters.

The schedule of procedure is kept up to date as the work progresses. The date when an item has been completed is entered in the "Actual Date" column. The "Reference" column is used for notation of who did the work and for reminder notes and remarks. These remarks are especially useful when the following year's report is prepared, for the previous schedule is the pattern for making up the new one. The remarks also serve as a guide for correction in future reports of any errors made in the preparation of the current report. For example, if envelopes had been ordered incorrectly, a note would be made in the "Reference" column; it would warn against a repetition of the same error the following year.

EXAMPLE OF A SIMPLE SCHEDULE

A company that prepares its schedule about sixty days in advance of the required mailing date (April 15), suggests a time-table such as the following:

January 15: Request basic material from all major department heads.
January 25: Begin rough draft of text, after deciding upon the general theme and nature of the message.
February 1: Prepare statistical and other chart material.
February 15: Submit draft of text for executive review.
February 20: Transmit charts, illustrations, etc., for preparation of engravings and lay-out.
March 1: Transmit approved text and public accountants' report to printer.
March 15: Deliver reports for addressing and mailing.

SCHEDULE OF PROCEDURE — 19— ANNUAL REPORT

Schedule Date	*Actual Date*		*Reference*
	Dec. 8	Ascertain number of stockholders of all classes to determine paper requirements and print order basis. Check 19— report quantities on hand in various offices.	
	Dec. 9	Advise purchasing department of quantities required. [Ed. This advice will be followed by a definitive memo. See Jan. 5.]	
	Dec. 15	Review notes and suggestions for report gathered during the year. Accumulate source materials.	
	Dec. 16	Review minute books, house organ, news releases, etc. for year's activities. [Ed. This step involves a selection of material by the assistant secretary that should be considered for inclusion in the report.]	
	Dec. 22	Mark up previous year's report with notes and current year's data. Request various department heads to submit suggestions in regard to subjects to be covered by the report. Review the working papers of the previous year for suggestions. [Ed. The file of working papers of the previous year contains the original drafts, the comments and suggestions of each person who reviewed them, and the source material. The notes on these papers are valuable as a guide in the preparation of the following year's report. The first drafts with comments are retained 2 years; the source material is retained 5 or 6 years or indefinitely. A public utility would be guided by regulations on the subject of destruction of records.]	
Dec. 29		Prepare preliminary dummy for guide.	
Dec. 30		Write first typewritten draft (5 copies). Review with senior officer in charge. [Ed. The comments, suggestions, corrections, etc. on the first draft will be incorporated in the second draft scheduled for Jan. 8.]	
Jan. 5		Determine style, color and stock for envelopes, covers and inside pages. Advise purchasing department of print order for all reports. [Ed. This memo to the purchasing department tells the amount of reports to be ordered (verifies or alters preliminary instructions of Dec. 9). It also gives instructions as to preliminary supply copies, that is, where and how they are to be delivered. For example, the copies for the press, and for various officers and offices will be included in the preliminary supply. The memo also gives delivery instructions for the balance of the reports, and specific quantity and delivery of envelopes.]	
Jan. 8		Write second typewritten draft (7 copies for various officers). [Ed. This draft incorporates the suggestions, revisions, etc. made on the first draft and is distributed on a wider basis than the first draft.]	
Jan. 9		Obtain samples of type style and set-up, and samples of cover.	
Jan. 12		Request preliminary statistical data from statistical department; data is to be marked on previous year's report. Request legal parts of report from counsel; for example, secure data on status of litigation and proceedings. Order envelopes; direct their deliveries to transfer agents for addressing; then to mailing. Send cover drawing to engraver.	
Jan. 13		Obtain from printers the estimates based on preliminary dummy. [Ed. Printer is selected on basis of bids and confidence in printer's work.]	
Jan. 20		Make the third and final draft. Prepare "dittoed" copies required for distribution. [Ed. This draft is sent to the Chairman of the Board, President, Vice-Presidents, Secretary, Controller, Counsel, principal operating men in the division offices, chief engineer, and several of the staff.]	
Jan. 21		Receive marked-up copy of last year's report from statistical department. Approve cover proofs, envelope corner card, style of type and page layout.	
Jan. 22		Check directors for titles, etc. for directors' page.	
Jan. 23		Check with assistant controller for accounting data and sections of reports.	
Feb. 2		Send routine pages, such as directors' page, statistical page, to printer. Arrange for printer to submit "day-bills" on each revision. [Ed. In order to have some basis on which to judge the reasonableness of the charges for author's corrections, and as a reminder to all those who are involved in preparing the report that corrections are costly and delays mean overtime expense, daily memos of costs of corrections (and overtime, if any) are received. This plan has proved beneficial in keeping costs of preparing the report at a minimum and in obtaining better control of production.]	

SCHEDULE OF PROCEDURE — 19— ANNUAL REPORT (Continued)

Schedule Date	*Actual Date*		*Reference*
Feb. 10		Keep printer's marked-up copies and proofs for checking day-bills. Instruct transfer agents on stencilling envelopes and eliminating duplicates. [Ed. The elimination of duplicates to stockholders having more than one kind of stock is a goodwill gesture as well as a money-saving step. Stockholders receiving more than one copy are likely to write in suggesting that the company save the cost of sending out duplicates.]	
Feb. 17		Obtain final financial data and sections from the accounting department. Deliver envelopes to transfer agents for stencilling. Send corrected third draft and financial pages to printer for first proofs. [Ed. The printer is instructed to supply galley proofs on page-size sheets, since they are easier to handle, and to set up completely the first page. This permits those who are to review the proofs to get the general effect. If a directors' meeting is to be held before the proofs can be expected from the printer, 25 copies of the latest draft are prepared on the Ditto machine for directors' use. If the directors' meeting falls after proofs are expected, a sufficient number of printer's proofs will be requested to supply each director with a copy, in addition to the number necessary for officers and others concerned.]	
Feb. 18		Distribute proofs, after placing initials of recipients on the copies. [Ed. By initialing the proofs there is never any question as to who returned them and whose comments are noted.] Make preliminary dummy for style, paging, etc.	
Feb. 24		Obtain revisions from all executives and send marked proofs to printer for second proofs. Determine number of copies wanted.	
Feb. 25		Provide 20 copies of complete report (in proofs or Ditto) for directors' meeting.	
Feb. 26		Obtain directors' approval of preliminary report form. Distribute second proofs in same manner as first on Feb. 18.	
Feb. 27		Confirm to purchasing agent number of pages in report and revise or confirm distribution order.	
Mar. 2		Ship stencilled envelopes to center from which reports are to be mailed. Review procedure schedule for possible revisions. [Ed. At this point the end of the work is in sight and the schedule is reviewed to see whether the reports can be completed before the scheduled mailing date. If that is possible, several people may have to be advised of the change in schedule.]	
Mar. 3		Revise second proofs, make new dummy for paging, and send to printer for third proofs (page-proofs).	
Mar. 4		Distribute third proofs to executives.	
Mar. 5		Send corrected pages to printer for fourth proofs, getting revises only on pages that show corrections.	
Mar. 6		Record date. Approve lock-up proofs and send lock-ups to foundry for one set of steel-faced plates.	
Mar. 9		Send plates to printer. Stencil report envelopes (transfer agent) for additional stockholders entered on books between first stencilling date and record date. Ship to mailing center.	
Mar. 10		Check proofs of plates before make-ready. Check press proofs. [Ed. Responsibility for these two steps is frequently placed entirely with the printer.]	
Mar. 11		Request printer to retain all type until reports are printed and to hold certain type for possible use in next year's report: cover, officers, statistics, and other routine pages. Prepare news releases to accompany report copies.	
Mar. 16		Receive special supply of reports for news releases, etc. Send to newspapers for release simultaneously with mailing to stockholders.	
Mar. 17		Suggest copy for report summary in house organ, April issue. Start mailing to stockholders.	
Mar. 19		Deliver preliminary supply to all offices. Finish mailing to stockholders. This must be completed by Mar. 31 and 10 days before annual meeting.	
Mar. 24		Deliver complete supply to all offices.	
Mar. 30		Obtain affidavits of addressing envelopes (transfer agents) and of enclosing and mailing (from mailing center).	
Apr. 20		Compile list of suggestions for improvements, etc. for next year's report.	

GATHERING MATERIAL

During the first stages of preparation, the executive in charge will usually review the sources of material, using the following methods:

1. Examine minutes of stockholders', directors' and committees' meetings held during the year.
2. Gather the reports filed with regulatory bodies.
3. Review the working papers of the previous year's reports for memos, notes and reminders.
4. Examine the notes and other data assembled in the annual report file for the year.
5. Circularize key executives for their ideas.
6. Check the last year's report to see what matters were reported upon as pending, for example, litigation, loans, planned construction.
7. Select from the file of publicity releases any developments important enough to be included in the annual report.

CIRCULARIZING KEY EXECUTIVES

There are various methods for getting key executives' ideas on what should be included in the report, before the first draft is made. The Ruberoid Co. prepares a long questionnaire early in November; it is designed to get information, other than financial, that might be of interest or value to stockholders or employees or both. Such items as research, results, new products, plant improvements, distribution of the "sales dollar," tonnage produced, details of tax payments, employment, wages, employee relations, important changes in personnel, general trade conditions, and the general outlook, are included in the questionnaire. Sections of this questionnaire are sent at once to the department heads from whom the various kinds of information must be obtained so that they may have ample notice of what is desired and can arrange to have it ready as soon as practical after the close of the year.

In other companies, this information is obtained from discussions with officers and department heads.

One corporation, which sends a letter to sales managers, the director of research, and others for information to be used in preparing the report, includes a two-part sheet. On one half is a tabulation of the contents of the previous year's report. On the other half is a tabulation of the proposed contents of the current report. The letter calls for suggestions, revisions of text, and new material.

Where the contents of the report are determined principally by the officer in charge of the report, he may send out a request to other officers and department heads to assemble the data required.

DUMMIES, DISCUSSIONS AND BIDS

In many companies the person principally responsible for getting out the report prepares, or has prepared, a preliminary dummy for guidance in the discussion of the annual report. The dummy is a time saver; it enables those who sit in on the discussion to visualize the complete report; it gives them something concrete with which to get down to work. The dummy forms the basis for settling such questions as:

1. Should the report be strictly a text treatment?
2. Should occasional pen and ink sketches be included?
3. Should photographs be used?
4. Should graphs and charts be included?
5. How large should the report be?
6. Should it have a separate cover?
7. Should color be used?
8. Are economies necessary or advisable?
9. What innovations should be introduced if the report is to be modernized?

In discussing these questions, it may be helpful to call in the heads of the advertising and purchasing departments, as well as the printer.

After the decisions have been made, another dummy is prepared on the basis of which printers' estimates can be obtained.

In some companies, these questions are worked out before a dummy is prepared. When decisions have been made, several advertising agencies are invited to submit a dummy based upon the suggestions furnished them. After a dummy has been selected, requests for bids on printing are sent out.

DRAFTING THE REPORT

With the material from various sources assembled, and the format decided upon, the *first* draft of the annual report can be prepared. This draft is usually submitted to the principal officers and department heads who are responsible for the accuracy of statements concerning the activities under their supervision. The accounting department generally checks all figures included in the text. In some companies, this draft is sent to the executive committee for review.

After corrections and suggestions have been obtained, a revised draft is prepared. This *second* draft is usually distributed on a wider basis than the first. Thus, if the first draft went to the officers and department heads, the second may go, in addition, to the directors and the general counsel. The *third* draft, incorporating the notes and comments of those who reviewed the second draft, is then drawn up. In most cases, this is the final copy, which is sent to the printer, though it is not unusual to find that four drafts are necessary.

Every officer, department head and legal counsel, and anyone who has any responsibility in connection with getting out the annual report should have an opportunity to see the final draft before it goes to press. This may be the copy that is sent to members of the board of directors for approval. Frequently, it is prepared in mimeograph form because of the large number of copies that are required. Since the art work—charts, photographs, illustrations, cover design—is usually completed by the time the final draft is ready, copies of the illustrations may accompany it.

HANDLING PROOFS

The printer submits a sufficient number of copies of galley proofs to permit everyone who is to see the proofs to have a set. It is extremely important that any changes to be made are made on the galleys, for changes on page proofs are considerably more troublesome and expensive. Whoever checks the accuracy of the figures should see that the text ties in with the financial statements that have been approved by the public accountants. On the page proofs, all figures should be checked carefully. In one company, the initials of the checker must be placed after all figures.

If the report is elaborate, with color work and photographs, a "blue print" proof will be helpful. This proof shows details of size exactly, it indicates bleeds clearly, and by means of appropriate notes shows color requirements and other vital information. Corrections can be noted on the "blue prints," and the printer notified to submit final proof in color.

The report in final form must usually have the approval of counsel and of the board of directors. Others, such as the executive committee or particular officers, may also be required to approve the final report, depending upon the practice in the particular company.

MAKING CORRECTIONS

In spite of excessive care, an error or omission may be discovered that must be corrected before the report is mailed. An erratum slip can be inserted at the proper place. Usually there is not sufficient time—and there are too many copies—to correct the error by pasting a correction slip over it.

Occasionally an annual report will contain information on a matter that is out of date by the time the report is ready for mailing, or will fail to report on an important new development. If the subject is vital enough, a multigraphed letter can be prepared and mailed with the report. This method has, for instance, been used to cover sudden strikes.

MAILING THE REPORT

It is always wise to determine in advance what the mailing costs of the annual report will be. For this purpose, it is advisable to use a dummy, cut to accurate size out of the paper that will actually be used and including the container and any inserts. A slight change may reduce the postage. The following postal information will be helpful:

Catalogue or book rate. Under the post office regulations, if printed catalogues and books have twenty-four or more pages, including the cover (at least twenty-two of these pages must be printed), and do not weigh more than eight ounces, they may be mailed at a special rate: one cent for each two ounces or fraction thereof on each individually addressed piece or package. If the printed matter has fewer than twenty-four pages, the rate is one and one-half cents for each two ounces.

Under this regulation, the sender saves the expense of sorting envelopes and tying them into bundles. On the other hand, this class of mail receives least attention in the post office and is generally slowest in delivery. Furthermore, this regulation does not permit the enclosure of a notice of annual meeting, proxy and proxy statement.

Sec. 562 P.L.&R. Many companies prefer to use the bulk mailing privileges under Sec. 562 of the Postal Laws and Regulations. Mail sent under Sec. 562 is handled expeditiously by the post office. It usually moves right after first-class and newspaper mail. A piece may be mailed under this section regardless of the number of pages, as long as the weight is under eight ounces.

If the booklet has twenty-four or more pages, the rate is eight cents a pound; if it has fewer than twenty-four pages, the rate is twelve cents a pound. The minimum postage is one cent per mailing piece.

The postage must be prepaid and supplied in the form of printed indicia, metered stamps or precancelled stamps. Uncancelled stamps must not be used on bulk third-class mail.

Under Sec. 562, a permit must be obtained from the postmaster, and the sender must sort the mail by city and state, and tie and label each bundle. The sender must also prepare a "Statement of Mailing" (supplied by the Postal Department) and submit it with each mailing. Even when the labor expense for these operations is added, however, experience shows that the total cost of mailing under Sec. 562 will still be less than one and one-half cents for each 2 ounces.

To save time when using Sec. 562, the sender can begin to sort the envelopes *before* the printing of the report has been finished. It is as easy to stuff envelopes after they have been sorted as before. This procedure will allow more time for printing, for auditing the financial statements, and for other preparatory work.

Metered mail; precancelled stamps. Metered mail, whether first- or third-class, saves time in the post office. Precanceled stamps can be used on third-class mail, but recipients generally regard mail less favorably when it bears this kind of postage.

Mailing by outside organization. A corporation may have its own mailing department send out the report, or it can engage an experienced mailing house. With its specialized equipment and trained personnel, the outside mailing house may do a faster, better job.

IDEAS FOR SAVING TIME AND CUTTING COSTS

A survey of methods used in the preparation of annual reports has disclosed the following ways in which the work can be expedited and costs kept to a minimum:

Writing the report

1. Keep a year-around file for memos and other data that will expedite the work of the following year.
2. Start early and prepare a schedule. See page 5.
3. Note on the schedule any points that will help in the following year's preparation of the report.
4. Keep a master or desk copy of the annual report on hand and note in it any points, suggestions, and comments that arise during the year so that they will not be overlooked in preparing the next report.
5. Don't wait for books to be closed to prepare comments on financial statements and charts and graphs. Make drafts of the reports on the basis of estimates and have figures checked carefully by the accounting department when the financial statements are finally completed. Prepare the charts and graphs up to the year for which the report is being made, so that when the data on that year become available it is a simple matter to make additions.
6. Make copies of the first draft on the duplicating machine.
7. Initial each copy of the various drafts and proofs with the name of the person to whom it is sent for approval. When the drafts are returned, there will be no question as to whose comments are noted and who returned the copy.

Physical qualities

8. Select a shape and size of paper that can be cut without waste from standard sizes used by printers.
9. In determining the number of pages in the report, think in terms of four- or eight-page units in order to avoid blank pages and to keep costs down. Thus, the report should be 4, 8, 12, 16, 20, 24, 28, or 32 pages long.

10. Consider publishing a condensed, popular edition, if the complete report must be large, statistical, and expensive. This edition may have a self cover and may be prepared to fit into a No. 10 commercial envelope.

Printer relations

11. Instruct the printer to use page-sized galleys; they are easier to handle.
12. Ask the printer to set the first page of the text of the report. This will give those who are going over the proofs an opportunity to see how the report will look, which makes for more intelligent criticism.
13. Ask the printer to furnish a daily memo of costs added because of corrections and overtime. This will afford a basis on which to judge the reasonableness of the charges for author's corrections. It will also remind all those who are involved in preparing the report that corrections are costly and that delays may mean overtime expense.
14. Save type or plates from those parts of prior reports that can be used with minor modifications, such as statistical matter and directors' page.
15. Supply the printer with copy for the financial statements by direct insertions of revised figures on a copy of the prior year's report, in order to facilitate the complex alignments and captions.
16. Save time by sending as much of the material to the printer as is ready before the text is completed. Parts that can be set up early include: (a) art work for covers; (b) charts; (c) display material; (d) auditor's report; (e) statistical tables; (f) directory; (g) lists of products.
17. If it appears that the preparation of the financial statements is going to hold up the report, arrange the material so that the front and back forms can be prepared and printed in advance. The printer can then concentrate the last moment on the inside pages that contain the financial statements. This is unconventional and ordinarily not a satisfactory way to produce any publication, but, in a pinch, it may allow the company to overcome obstacles that otherwise seem insurmountable.
18. If the report as a whole is delayed for reasons beyond the control of anyone, it may be necessary to send out the financial statements first in a separate mailing. The regular full-sized report, in which the financial statements are included, is sent out later.
19. Make special runs of maps, diagrams, and similar pages that may be useful for publicity and other purposes.

Mailing the report

20. Consider what economies can be effected by mailing the notice of annual meeting, proxy and proxy statement with the annual report.
21. Consider the postage savings that can be effected by planning a book of 24 pages or more. See page 10.

POPULARIZED AND CONDENSED EDITIONS

Some railroads prepare two versions of their annual reports, one for the general reader and another for those who are interested in statistical and detailed financial information. In many cases, this procedure is economical because most of the stockholders are not interested in the statistical material. The Pennsylvania Railroad, for example, issues a report to its stockholders that is easily understood but does not contain all of the statistics that are available. A separate statistical statement containing information of interest to investment bankers and others making detailed studies of the company's affairs is also prepared. Stockholders are invited to send for the statistical statement.

The Erie Railroad many years ago introduced two editions of its report—the popular and the complete. The popular edition contains photographs, charts, maps, comments on the year's operations, and a comparative income statement and comparative balance sheet. It is mailed to each stockholder of record, while the complete report, containing full statistical data, is mailed to interested security holders and others on request.

The Provident Mutual Life Insurance Company of Philadelphia, Pa., adopted the plan of issuing a condensed four-page report during the war years as a means of conserving paper. A return card was sent with the brief report for use in requesting a complete report. After the war, the company continued this practice, explaining its action with this interesting comment:

The plan [to issue a condensed report] appeared to meet with the approval of many policy owners, and in order to learn if such was the case generally, we asked last year for an expression of opinion. Over 33,000 policy owners took the trouble to return the reply card, and we thank them sincerely for their interest. The vote was more than thirteen to one in favor of continuing the condensed report procedure. Accordingly this condensed report . . . is being sent to all policy owners, accompanied by a return card to be used by those who would like to receive a complete report containing, among other things not in the shorter report, a list of our bond and stock investments.

PUBLIC MISCONCEPTIONS AFFECTING THE ANNUAL REPORT

A number of public opinion and employee surveys have been made since the war by professional poll-takers to see what people really think about business. The findings have invariably been disturbing. They show widespread misconceptions about business profits and lack of confidence in American business ways. A few of the surveys and some of the facts they revealed are mentioned below.[1] This brief summary indicates the nature of the misunderstanding.

SURVEY OF PUBLIC OPINION ABOUT PROFITS

A nation-wide poll by The Psychological Corporation, New York City, in 1946, showed how poorly educated the public is about the profits of American industry. Of the people interviewed,[2] 26% had no idea of what profits companies made, 74% did. Of this 74%, all but 13% were wrong, and most of them far wrong. According to government reports, average profit per dollar of sales in 1945 was 3.8 cents, but what the people thought was as follows:

Net Profit on Each Dollar

Per Cent	
13	less than 10¢ (right)
14	10¢ to 19¢ (wrong)
15	20¢ to 29¢ (wrong)
9	30¢ to 39¢ (wrong)
17	40¢ to 59¢ (wrong)
6	60¢ or more (wrong)
26	don't know

When asked what they thought the profits should be, their answers were again out of line with actual profits. The average allowance was nearly 20¢ on every dollar.

SURVEY OF PUBLIC ACCEPTANCE OF FACTS AND FIGURES

Opinion Research Corporation, Princeton, N. J., made a survey of public opinion for Controllership Foundation, Inc., on "The Public's Acceptance of the Facts and Figures of Business Accounting." The survey revealed some startling facts.

(1) The public has an erroneous impression of the amount of profit made by business firms;

(2) A considerable section of the public does not understand the terms in which business reports are couched, even though they are sanctioned by long use;

(3) In spite of certified audits and all the safeguards imposed by Federal and State laws, and by the regulations of the Securities Exchanges, a substantial percentage of the public distrusts the financial statements of business.

RAILWAY SURVEYS

For several years Opinion Research Corporation has conducted an annual survey of public opinion about the railroads for the Association of American Railroads. In the 1947 survey, the public's views of railroad profits were slightly nearer the facts than the previous year, but a large majority were still uninformed or misinformed on this important issue: 14% estimated that the railroads earned 5% or less, 24% estimated earnings at 20% or more. The average (median) estimate was 12%. For the year 1946, the actual earnings of Class I railroads were 2.18% on investment before depreciation, and 2.75% on investment after depreciation.

In this survey, the public said the railroads should make 10%. More than three-quarters of those who expressed an opinion felt that 6% or more would be a fair per cent of profit.

An employee survey conducted for *Railway Age*, *Railway Mechanical Engineer* and *Railway Engineering & Maintenance* by Opinion Research

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[1] For more about the misinformed public, see *Why Kill The Goose* by Sherman Rogers, published by The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York.

[2] Personal calls were made in 5000 homes by 513 interviewers under the direction of ninety psychologists associated with The Psychological Corporation.

Corporation showed that only 4% of employees thought the railroads earned 5% or less in 1944, 9% thought they earned over 75%. The average (median) estimate was 27%. According to Interstate Commerce Commission figures for that year, the railroads earned 4.18% on investment.

STEEL INDUSTRY SURVEY

"An Appraisal of the Steel Industry" was made by Opinion Research Corporation in 1946 while the industry-wide strike was still fresh in the minds of the people. It showed that both steelworkers and the public had erroneous conceptions of the profits made by the industry. The public thought that steel made a profit of 20 cents on the dollar and that 10 cents would be fair. Steelworkers believed steel made 25 cents profit on the dollar and granted 15 cents as fair. The public thought 5 cents was paid in dividends to each dollar paid in wages, steelworkers thought the ratio was 7 cents to the dollar.

The following table from *Steel Facts,* published by the American Iron and Steel Institute, gives the facts, as revealed in consolidated returns of groups of representative parent companies, including steelmaking and non-steelmaking operations.

Division of Steel Companies' Sales Dollar

	1939	*1940*	*1941*	*1945*	*1946*
Misc. Operating Expenses (Materials and other costs)	50½	49½	49	52	48
Payrolls	37	35	33	40	41
Taxes	5½	6½	11½	4¼	5
Left in Business	3	4	3	¾	2½
Interest	1½	1	½	½	½
Dividends	2½	4	3	2½	3
	100	100	100	100	100

The cash dividends paid equalled 7.5 cents for each dollar paid to employees in 1946, compared with 6.0 cents for each dollar spent on payrolls in 1945.

SURVEY OF PUBLIC OPINION ABOUT CORPORATE OWNERSHIP

To find out the facts about public thinking on corporate ownership, Controllership Foundation, Inc., had a survey made of urban adult opinion on the subject.[3] Conducted by Psychological Corporation in 1947, this poll revealed that most people in the United States have mistaken ideas about the ownership of big corporations. Here are a few indications of the lack of information and the misinformation, as brought out in the report on the survey:

> Eight out of ten people admit that they can only guess how many people own a big corporation.
>
> One out of five persons would judge that a big corporation is usually owned by fewer than 100 people; one out of four would estimate that a big corporation is owned by 20,000 or more people.
>
> Almost one out of three people agrees with the statement that "a handful of men like the duPonts, Rockefellers, Fords, and so on own most of the corporations in America."
>
> Fewer than half (47 per cent) of the people believe that the general public—ordinary people who have spare money to invest—are the owners of big corporations.
>
> Seven out of ten people think that corporation owners are mostly men.
>
> Six out of ten people believe the average age of corporation owners is between 50 and 60.
>
> Nearly half (46 per cent) of the people think the owners live, for the most part, in the East; 42 per cent believe the owners are scattered over the nation.
>
> Almost half (49 per cent) of the people think the persons who own big corporations are "smart, intelligent, and well-educated."

WHAT THE PUBLIC THINKS OF PRIVATE CAPITALISM

With the public holding such mistaken notions about profits and ownership, it is not surprising that surveys to determine what it thinks of American private capitalism show a startling number of disbelievers in free enterprise. Dr. Henry C. Link, Vice-President of Psychological Corporation, found in a general population survey made in May 1947, that 34% thought they would get as much or more under government ownership, 36% thought they would get less, and 30% were uncertain.

PUBLIC ATTITUDES AND THE ANNUAL REPORT

The misconceptions and lack of confidence that exist lead to this conclusion—Every annual report should be prepared with these objectives: (1) To remove the misconceptions, (2) to foster a better understanding and higher appreciation of the American system of free enterprise. Ways in which this can be done are discussed throughout this book.

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[3] The survey was conducted in 28 towns and cities chosen, on the basis of census figures, to give a proper cross-section of the nation's urban population in terms of city size and geographic location. One thousand interviews were made.

WHAT TO COVER IN THE ANNUAL REPORT

While any study of modern annual reports will show that they treat more or less the same subjects and use the same techniques, a good modern report has its own individuality. The reason is that it is designed to fit a particular company.

INFLUENCES ON CONTENTS AND MAKE-UP

The following factors should be considered in determining the physical qualities and contents of the report:

1. *Type of industry represented.* The nature of the business determines to a considerable extent the contents and make-up of the report. For example, reports of railroads, public utilities, investment trusts, insurance companies, banks, mining companies, aviation companies—to mention only a few—have their own special characteristics. They differ materially from a typical industrial report. Even industrial reports, as a group, vary with the nature of the business. A company manufacturing heavy machinery might have a report that suggests strength; one making cosmetics for women might lean toward lighter motifs.
2. *The size of the company.* An abbreviated annual report for a large corporation would be as incongruous as a pretentious one for a small company.
3. *The earnings.* A style of report should be adopted that can be used consistently in good, bad, and average years. The company should avoid a report that is so obviously expensive to produce that stockholders will cry "extravagance."
4. *The type of stockholder.* If housewives constitute the largest single group of stockholders, the physical quality and tone of the report should be less dignified and staid than if the major group comprise elderly gentlemen in the upper income-tax brackets.
5. *Whom the report is to be sent to.* The influence of audience on plan, content, and treatment is brought out in Chapter 19, Reports to Employees, and Chapter 20, Winning Public Goodwill Through the Annual Report. Here it is sufficient to say that it is important to bear in mind who will read the report.
6. *How readers are going to use the report.* Will they save it, give it away, or throw it away? See pages 216, 217, 222 and 223 for surveys on this subject.
7. *Particular interests and desires of stockholders and others* who have indicated their reactions in surveys. Chapter 17 is devoted to such surveys.
8. *What other material is sent to the stockholder.* A company that issues quarterly, informal reports to its stockholders on company developments and prospects, dividend enclosures, and other stockholder literature, might restrict the scope of its annual report to an explanation of the financial statements. For further discussion of this subject, see Chapter 18.
9. *Desire to satisfy one class of readers.* A company may give consideration to all the above factors and then decide that, for its purposes, it is best to write the report for a particular group of readers, even though that group is in the minority. For example, Consolidated Edison Company has in mind particularly the security analyst and sophisticated stockholder when it prepares its annual report. The responsible executives feel that if they satisfy this group, other stockholders are bound to get something from the report. This company, however, has a well-rounded stockholder-relations program and can afford to put the "professional" stockholder in the front rows of its annual-report audience. The nonprofessional stockholder gets this preferred position in other parts of the stockholder-relations program.

THE PRESIDENT'S LETTER

The phrase "the president's letter" dates from the time when the annual report consisted of a letter from the president of the company transmitting the financial statements. It might or might not have contained comments on the statements. Today, the president's letter is still found in most annual reports, but in a variety of treatments. For example:

1. The entire report, with the exception of the financial statements, is in the form of a letter to the stockholders—and others, in some cases—signed by the president. The financial statements may be offered with a brief transmittal letter from the treasurer.
2. The first portion of the report, dealing with the review of the year and comments on the statements, is in the form of a president's letter. The financial statements and the material following the financial statements, such as reports on activities, products, divisions, educational matter, are offered as separate parts, not embodied in a letter. Under this plan, it is possible to include up-to-the-minute information on developments since the close of the corporate year. The president's letter thus has the freshness of a news letter to stockholders.
3. The president's letter is a brief transmittal letter. The report is not embodied in the letter.
4. There is no president's letter. The financial statements are submitted by the treasurer.

The by-laws of the company may dictate the way in which the report is submitted. For example, if the by-laws provide that the board of directors shall present an annual report to stockholders, it is likely that there will be a "letter" submitted by order of the board, and signed by the chairman of the board.

The president's letter, when included as a separate unit, should be as well written as any other part of the report. Sometimes a president who thinks he has something special to offer will insist upon doing the letter in his own way. No one will tell him that his letter does not synchronize with the report. But someone should. On the other hand, there are some extraordinary personalities among top executives in the business world whose letters give the annual report a quality that no one else can supply.

THE GENERAL PLAN

No rules can be laid down as to what plan the report should follow or the order in which subjects should be treated. Some thoughts on planning, as offered by those who have produced outstandingly good reports and as evidenced by a selected group of comprehensive reports, are given below.

1. Select a central theme and organize the report in accordance with that theme. A General Mills annual report was called *How General Mills Grew Last Year.* That theme was present in each subject reported upon. In a report of Dominion Stores Limited, the aims of the company were the theme of the report. The first two pages explained the aims, and the president's report tied in with them. Thus, in the part dealing with employee relations, the aim ". . . to provide its employees with a satisfactory living under the best possible conditions" was repeated as a caption and the text showed how the aim was carried out. Pittsburgh Consolidation Coal Company used as a theme the activities of the company in relation to the role played by the miner. A public relations theme is often found in reports of companies that strive for good public relations. Some examples are given at page 279.
2. Open the report with a statement that summarizes the year's results.
3. Treat the subject of earnings early in the report.
4. Build the report around a discussion of each division of the company.
5. Construct the report as a commentary upon each item in the financial statement. The Yale & Town Manufacturing Company numbers each item in its Comparative Statement of Income and Surplus and in its Comparative Balance Sheet. In one of its annual reports there were forty-two numbered items. The comments on the statement are tied up with the numbered items. Thus, the company offers its narrative on sales as Item 1, the first item in the Comparative Statement of Income and Surplus, instead of under a heading "Sales" or "Revenues from Operations." Only those items are commented upon that call for an explanation.
6. Include a discussion of the financial statements. Cover the income statement under

a heading such as "Operations," cover the balance sheet under a heading such as "Financial Condition."

7. Devote the first part of the report to the review of the year closed and the financial statements, and the second part to such subjects as:
    (a) The company's progress in its various activities during the year.
    (b) The company's products. See page 166 for comments on developing a product section.
    (c) Educational matter. See page 29.
    (d) A discussion of each division of the company.
    (e) Explanations of any special policies and programs.
8. Bring out the most important development of the year through a center spread that tells the story graphically. For an example, see Fig. 8, page 52, reproduced from a report of The Studebaker Corporation.
9. Write the narrative portion of the report for the nontechnical reader and the financial-statements section for the trained reader of accounting reports. But see page 12.
10. List the outstanding events of the year under the titles "Pleasant" and "Unpleasant." The Florida Power Corporation used this novel idea in a recent report. There were four pages of "pleasant items" and one page of "unpleasant items," each containing from one to four lines of type. The items were grouped more or less logically, but no headings were used to separate the groups. Instead, the subject matter was suggested by line-cut illustrations.

ILLUSTRATED BOOKLETS

Some companies have gotten out double-feature reports, one booklet for the pictorial account of the company's progress, activities, products, or special phases of its work, and another for the review of operations and financial statements. Under this plan, the special booklet or brochure can be used all year round for other sales and goodwill promotion purposes.

Union Carbide and Carbon Corporation, for example, issued a twenty-eight-page annual report in which no color was used. The back cover had a three-inch fold, into which was placed an illustrated thirty-two-page booklet describing the "Products and Processes" of the company.

The United Aircraft Corporation issued a "Pictorial Report," along with its annual report, in which research and development were colorfully explained.

A report to stockholders of Pullman Incorporated contained twenty-eight pages of narrative material and financial statements, without color except on the front and back covers. But two colorful enclosures were sent with the report. One showed in photographs and story the number of cars built since the war and the railroads for which they were built. The second enclosure dealt with the products of the M. W. Kellogg Company, one of the company's subsidiaries.

Freeport Sulphur Company sent out several years ago a profusely illustrated booklet showing where and how sulphur is mined, where the company's employees live, the uses of sulphur in different industries, and other interesting aspects of its activities. B. F. Goodrich Company devoted a booklet to showing how Goodrich's many products are used in farming, pick-up and delivery, aviation, clothing, and other fields.

SUBJECTS TREATED IN THE ANNUAL REPORT

Most of the subjects listed below are treated in a comprehensive annual report.

1. Progress made during the year—Results at a glance. See Chapter 4.
2. Production. See Chapter 5.
3. Volume of business—Sales. See Chapter 6.
4. Costs of doing business—Where the sales dollar went. See Chapter 7.
5. Earnings and dividends. See Chapter 8.
6. Financial condition. See Chapter 9.
7. Employment, wages, and employee relations. See Chapter 10.
8. Taxes. See Chapter 11.
9. Stockholders. See Chapter 12.
10. Products, research, advertising, and selling. See Chapter 13.
11. Public relations. See Chapter 20.
12. The company—Its history and present organization. See page 19.
13. Management personnel. See page 21.
14. Policies and principles. See page 22.
15. Government relations. See page 27.
16. Litigation. See page 27.

17. Outside factors affecting the company. See page 28.
18. Plans for the future. See page 28.
19. Financial statements. See page 31.

The subjects on which the most help can be obtained from this book are covered in separate chapters, as indicated in the references above. The remainder are discussed in this chapter at the pages noted.

In the separate chapters, the ideas for handling the subjects are presented under the following five-part scheme:

1. A checklist for points to be considered in preparing the narrative on the subject.
2. A checklist for ideas for charts, graphs and other pictorial presentations of the subject.
3. Reproductions of adaptable charts, graphs and pictorial presentations of the subject.
4. Ideas for statistical data dealing with the subject, given in skeleton form; that is, the headings and arrangement of the tabulation are presented.
5. Excerpts from actual annual reports.

THE NARRATIVE

The subjects outlined above, except for financial statements, comprise the narrative portion of the report. This narrative, through word, illustration and statistics, explains the corporate story reflected, but inadequately revealed, in the financial statements. It tells the story of private enterprise, sometimes between the lines and sometimes in direct messages, as illustrated elsewhere in this book. For the stockholder who is untrained in accounting terminology, it is the most important part of the report.

The suggestion was made in an article by Paul J. Graver and Christian C. Luhnow, in the August 1945 issue of *Trusts and Estates,* that perhaps a new style of reporting is needed to permit a proper evaluation of the benefits of private enterprise. According to these writers, the story of business may be shown in three chapters: (1) The tools with which management and labor work, reflecting what the investor provided, (2) the products made with the tools, showing how management and labor used the tools, and (3) the benefits resulting from the company's use of men and machines. The authors analyzed a group of reports to demonstrate how business reported upon each of these three parts of the private-enterprise story.

THE COMPANY

Unless a corporation publishes a separate booklet about its work that is sent to investors at the time that they first purchase the company's stock, it may be advisable to include in the annual report some information on the history of the company and its present organization. Mention is made on page 245 of several companies that send company booklets to stockholders. In treating the subject of the company in the annual report, the following checklist may serve as a reminder of what to cover:

1. Highlights of company history. Examples of highlights are given at pages 38 et seq.
2. What the company does. Various ways in which this may be handled are described at page 20.
3. Organization chart. This device is especially useful for listing subsidiary companies, for showing the parent company's holdings and what it cost to acquire them, and for showing the percentage of voting stock held. Another example is mentioned at page 21. A chart of the internal organization of a company is occasionally included in an annual report.
4. The company's products and how they are sold. See Chapter 13.
5. What the company has done in the field of public relations. See Chapter 20.
6. How the company has helped to improve trade conditions in the industry.
7. Action taken at a previous annual or stockholders' meeting. This action would be mentioned in connection with changes in the financial or corporate structure of the company, such as increases in capital stock, reclassification of stock, formation of new subsidiaries, dissolution of subsidiaries, mergers, new securities issued, refinancing, reorganization plans, and the like.
8. Proposals for amendment of charter or by-laws that will be presented before the next stockholders' meeting.

HIGHLIGHTS OF COMPANY HISTORY ANNIVERSARY NUMBER

When a company reaches a milestone in corporate existence—ordinarily its tenth, fifteenth, twentieth anniversary, and so on—the annual report is often made an anniversary number. Special attention is given to compiling a report that will show the company's progress. More pages than usual are devoted to comment, pictures, charts, diagrams, statistics, and messages. The success story of any business that started small is proof of opportunities under free enterprise. That thought might be developed in a message or theme.

One feature of the anniversary number is a page or two of highlights in the company's history. Here are some developments that are usually highlighted:

Origin of the company.
Dividends first declared.
Continuity of dividend record.
Merger with other companies.
Acquisition of control of other companies.
New plants established.
Expansion of company and removal to larger quarters.
Acquisition of patents and inventions.
New products or lines added.
Creation of new divisions.
Establishment of research program.
What the company did during war years.
Change in company name.
Inauguration of various employee-benefit plans.
Special recognition of long-time employees.
Changes in management personnel or policy.

TELLING WHAT THE COMPANY DOES

A test question to be applied to every annual report is: Does it tell what our company does? It is incredible, but true, that hundreds of annual reports are prepared each year that carry no indication whatever of the company's business. If a section is included on the company's products and how they are sold (see Chapter 13), there may be no need for a separate explanation of the company's operations and services. However, inclusion of such a section does not preclude the use of statements such as are given below.

Skelly Oil Company described its functions in one report as follows:

> Skelly Oil Company, a well integrated unit in the oil and gas industry, is principally engaged in producing crude oil, natural gas, and casinghead gas; refining crude oil; manufacturing natural gasoline, solvents, and liquefied petroleum gas; and marketing at wholesale and retail petroleum products, automobile accessories, and sundry items. In connection with these primary functions the Company acquires and develops oil and gas lands and leases; purchases and sells crude oil, natural and casinghead gas, and natural gasoline; and gathers and transports crude oil to its refineries and natural and casinghead gas to its gasoline plants.

Another technique was used by Bendix Aviation Corporation. A full page carried the statement given below. A highly decorative "B" in the first word, good spacing and a narrow frame around the message made an attractive page.

> THIS IS BENDIX
>
> BENDIX is essentially a great creative engineering and manufacturing organization—unlike any other existing in America. ¶ Despite the fact of its modern manufacturing plants and its demonstrated productive capacities, the essence of Bendix greatness lies in its ten research laboratories and in the integrated knowledge its many engineers have jointly acquired in the fields of electronics, magnetics, optics, ceramics, electro-mechanics, hydraulics, pneumatics, injection-carburetion, aerological physics and metallurgy. ¶ Bendix is constantly exploring the widest possible application of all these sciences to all manner of industrial, commercial, domestic and human problems. ¶ By virtue of this, wherever machinery replaces human effort, there you will find Bendix—leading the world in lightening the load on the human mind and removing the strain from human backs and hands. ¶ The searchlight of Bendix creative engineering is always pointed to a bright and better tomorrow. ¶ When you see the name *Bendix Aviation Corporation,* on any product, you can buy it with the definite knowledge that it is first in creative engineering design and the last word in quality.

United-Rexall Drug, Inc., opened its explanation of the company's business with this question and answer:

> WHAT IS REXALL?
>
> Rexall is a manufacturer.
> Rexall is a distributor.
> Rexall is a retailer.
> Rexall is a philosophy of business.

It then told the story of Rexall in each of these positions. Color pictures of the company's products were reproduced across the bottom of the three pages devoted to this subject.

Part of the story of what the company does can be told in maps showing location of plants and the like (see page 203) and in photographs (see page 202).

Another technique is to use pictorial diagrams showing the processes from the first steps in obtaining raw materials to the finished product.

DIRECTORY

One or more pages of the annual report are always devoted to a directory. It usually appears at the beginning or end of the report, but is sometimes placed immediately following the financial statements. An exhaustive checklist of what might be included in these pages is given below. A selection may be made to suit the needs and wishes of a particular company.

Directors—Names and addresses (city and state).
Officers—Titles and names.
Executive committee members.
General counsel—Name and address.
Auditors—Name and address.
Transfer agents—Names and addresses.
Registrars of transfers—Names and addresses.
General offices of the company.
Sales offices.
Factories or plants—Where located.
Subsidiary companies—Addresses and officers of each.
List of branches and manager of each.
Departments and name of manager, director, or head.
Various management committees—Names of committees and members.

For some reason or other, some companies fail to show their general office address. It should always be given as an implied invitation to the stockholders to communicate with the company. A stockholder who looks for the address and does not find it will naturally feel that the company would rather not hear from him. Good stockholder relations demand that the stockholder be made to feel that communications from him are always welcome.

For decorative purposes, the directory page may use horizontal lines to separate one group of names from another. This device is especially effective in reports that use color.

Instead of having a conventional directory page, a chart of the organization, showing the stockholders at the top, may be presented. ATF Incorporated used an organization chart showing the board of directors (with names), the president immediately below, and corporation records (with names of secretary and assistant-secretary-treasurer) and management staff (with names of other officers) on a common level immediately below the president. Connecting with the president and directly below the officers were boxes carrying the names and locations of each of the subsidiary companies, and below some of these were boxes showing the names of divisions.

In some organization charts, the various functions of the departments are indicated. In an organization chart that constituted the directory of United Specialties Company, the photograph of each director and officer was included under his name. A gate-fold arrangement of the front cover made possible a good-sized chart.

TELLING ABOUT MANAGEMENT PERSONNEL

More and more companies are introducing the "family of stockholders" to the men who run the company, with photographs of these individuals and brief sketches of their careers. This feature can be repeated year after year, for there are always new stockholders and, in some cases, changes in the top personnel. The lay-out of the material, the type of photographs used, and the copy may be changed in each report to lend variety to the treatment.

Changes in top personnel are usually mentioned in a comprehensive report. Such mention includes new directors and officers, with a brief biographical sketch, retirements among directors and officers, promotions among key employees and deaths among directors, officers, and valued employees. Some examples of death notices are given at page 22.

In addition to these usual ways of telling about the people who direct the company's affairs, the annual report may show something of the character of top management, its aims, standards and ideals. This can be done in special messages and statements of principles and policies, as described on page 23 and in the section dealing with employee relations. See page 140 for ideas on this subject.

If the company has introduced some new element in the management set-up during the year, an explanation of the change properly belongs in the annual report. For example, when Johnson & Johnson created an independent executive staff to supervise the expanding sales of foreign subsidiaries and the operations of these companies, it included a paragraph in the chairman's letter on the subject. The brief statement showed the reasons for the change, explained the functions of the staff and mentioned the director of the staff and his background.

DEATH NOTICES

A company that has lost an officer, director, key person or long-time employee during the year may feel that it wants to honor the memory of that person with some expression of regret in its annual report. Some of the ways in which the obituary can be presented are:

1. Show a photograph of the person with a brief expression of sorrow or with a resolution of sympathy that has been passed by the board of directors. Here is the statement that was used, with a photograph, by the American Locomotive Company:

> With deep sorrow the Board of Directors records the death on April 25, 1946 of William Carter Dickerman, at that time a Director and Member of the Executive Committee of the Company. For fifty years Mr. Dickerman was a leader in the railroad equipment industry. President of American Locomotive Company from 1929 to 1940 and Chairman of the Board until 1946, he successfully brought American Locomotive Company through the great depression of the '30's, maintaining the organization which enabled the Company to reach unprecedented production during the war years and enter the postwar period strong and fully prepared. Mr. Dickerman's death was a great loss to his many associates—in the Company and outside—who always benefited by his wise counsel and sympathetic advice.

2. Reproduce an extract from the minutes of the directors' meeting at which a resolution of sorrow was passed. The following is an example:

> Excerpts from Minutes of a Meeting of the Board of Directors Held July —, 19—
>
> At the opening of the meeting of the Board of Directors, the President announced with regret the death of Mr. ——, at ——, on Monday, —— —, 19—.
>
> Mr. —— was an old and valued friend to many members of the Board prior to his election to the Board on —— —, 19—. The Board honored Mr. —— for his integrity, sincerity, and sound business judgment and cherishes the memory of his warm friendship and remembers with admiration the unstinted vigor which invariably marked the bestowal of his time and strength when he sensed a responsibility or an opportunity for service, but above all, he was esteemed for his qualities as a man; his frankness, generosity, human kindliness, and unvarying consideration for all with whom he came in contact; therefore,
>
> BE IT RESOLVED: That, deeply aware of the loss sustained, the Board of Directors of the —— Company hereby expresses its deep and sincere sorrow at the death of Mr. —— and its sympathy for his family, and directs that this resolution be spread upon the records of the Company, be suitably engrossed, and be conveyed to the family of Mr. ——.

3. List the names of the deceased in a box with the heading "In Memoriam."
4. Include a paragraph in the president's letter referring to the loss.

If the notice is not included on a separate page or in a box, it may be set apart from other items by black lines above and below. In reports using color, no color is used in the notice.

STATEMENTS OF POLICIES AND PRINCIPLES

Statements of business policy help to create better understanding of a company's operations. They therefore have a place in the annual report. Furthermore, putting the policy into words makes management see more clearly its responsibilities to stockholders, employees, customers and the public, and guides it in writing a report that reflects its "credo."

A statement of business policy tells what principles management follows in carrying on its business. From it, one should be able to tell the company's broad aims and its approach to business problems. Since these problems are diversified, the policy statement may be a series of recitals. General Mills' statement of policy, for example, comprises management's thinking in twelve fields: (1) Research, (2) service to the public, (3) free competitive enterprise, (4) human relations, (5) adequate compensation, (6) quality products at fair prices, (7) fair profits, (8) sound advertising, (9) modern selling, (10) realistic accounting, (11) public relations, and (12) high output and lower prices.

Company policies are handled in the following ways in the annual report:

1. A statement of principles and policies is included in full. An example is given at page 24.
2. Portions of the policy statement are mentioned in appropriate places in the report. For example, in a section on research, management's approach to this problem might be worked in as a policy statement.
3. The aims and policies form the theme of the report. An example is given at page 17.

THE "SPECIAL MESSAGE"

The most progressive of the large corporations have taken the lead in including in their annual reports special messages dealing with basic questions in the nation's economic life. There is ample justification for such a practice, since corporate welfare is dependent upon sound public attitudes. It is assumed that an annual report that contains such a special message will be used and distributed to improve industrial public relations.

In writing the special message, these guides may prove helpful:

1. Make the basic question clear in the beginning.
2. State and defend the company's position in regard to the question.
3. Make the message concise, a page long at the most.
4. Keep the language simple and the story factual.
5. Do not use an argumentative tone.
6. Avoid too much philosophy and too many abstractions.

The "Importance of Management" was the subject of a special message in a recent report of the General Motors Corporation. It was introduced with a note that read: "There never was a time in the history of the American economy that demanded as much of the managers of business enterprise. That fact suggested to Mr. Sloan the desirability of presenting a personal point of view on the subject of management and certain related circumstances for the attention of the stockholders as a prelude to this annual report." The following year the company included a message on "The Importance of the Economic Incentive" as a prelude to its annual report. This message was described as a corollary to that of the previous year in the sense that it dealt more specifically with one phase or component of the field of opportunity, as related to the functioning of a free competitive economy.

In the president's letter to stockholders of Bristol-Myers Company, an earnest statement was made of the company's concern about world conditions. The paragraph is reproduced below. It will be noticed that point two of the formula above has not been directly observed. It need not be, if the relationship of company welfare to the attitude expressed is obvious. On the other hand, the rule for showing the company's position on any basic question and defending it, is a wise one. It prevents a reader from claiming that the annual report is being used inappropriately for political propaganda, if the view expressed is contrary to the reader's.

> So much for our own particular business. Recently I have been seriously disturbed over the casual attitude taken by too many of our citizens over the future of our nation. We are living in a world of political chaos, a world in which millions of people in Europe and in Asia are on the brink of starvation, existing hopelessly from day to day under conditions which would make our worst slum areas seem like paradise. Of course, no one can foresee what will happen, but for my own part I do not believe one-tenth of the world can enjoy peace and prosperity while the other nine-tenths is suffering. I do not know when the effects of that condition will be felt directly by us or in exactly what form, but it is the belief of myself and my associates that unless and until the affairs of the world are straightened out, we are going to be affected. This nation can no longer afford the luxury of isolationism. We cannot withdraw from world affairs and erect either political or economic barriers against the rest of the world. Peace and prosperity do not lie that way. This nation must do more than its share in bringing world order out of chaos and that demands statesmanship of the highest order above the level of party politics. Democracy cannot work at home if it shuts its eyes and its ears to the rest of the world.

STATEMENT OF THE COMPANY'S PHILOSOPHY

It is not unusual to open the annual report with a foreword or other prominently displayed statement of the company's philosophy. Four examples are given below.

A Statement of Principles

It is clear that two faiths are meeting in conflict all over the world today—at home as well as abroad: a belief in an expanding freedom and responsibility for the individual *versus* a belief in an expanding authority of the state, even though the result may be a contracting freedom for the individual.

In such a world Standard Oil Company (New Jersey) is on the side of human freedom as a matter of principle and also because it believes that the prosperity of all Jersey companies is directly related to the growth of human freedom.

Standard Oil Company (New Jersey) does not believe in economic blocs and monopolies. Jersey believes that competition—the continual offering of better products at lower prices to more people under a system where the consumer is free to choose—offers the Jersey companies their greatest promise.

The prosperity of any nation is closely related to the freedom which the people of that nation enjoy. It is out of individual freedom that people draw the hope, the initiative, the willingness to take risks which are characteristics of vigorous producers—and it is always the actively producing peoples and nations who are the large consumers and the best markets.

The strength of any nation, like the strength of any company, is in its people. High standards of living, like high wages, are a product of enterprise—and enterprise grows best in a soil of freedom for the individual.

The Company believes that restrictions on world trade and foreign exchange which cut nations off from supplies—especially those supplies which are the breath of economic existence—are among the important pressures which drive peoples toward excesses of nationalism and toward war. Jersey is on the side of increased world trade and reduced restrictions. In no field is this more important than in the field of oil.

In the future, as in the past, the Company will put its chief reliance for growth and prosperity on the development of an exceptional personnel. Jersey feels that its greatest asset today as it faces the grave problems of a troubled world is the high character and ability of its people. The Jersey form of decentralized organization has the great merits of every democratic system, chief among them the stimulation it gives to the development of able, courageous, energetic, self-reliant men and women.

The Jersey company has obligations as a citizen, among them: to act always with a consciousness of the public interest; to recognize that a good example is a great constructive force; to work for the common good, supported by a conviction that what is in the interests of the people is in the best interests of Jersey.

Standard Oil Company (New Jersey) has every good reason to approach the future, for all of its uncertainties, with confidence.

THE BOARD OF DIRECTORS

The message from W. C. Carter, President of the Link-Belt Company, reads as follows:

A business, like the individuals who make it up, is faced with the problem of making a living. Charity may alleviate the distress of an individual, but there is no such alternative for an ailing business.

At this time, industry is depressed by the failure of understanding of the simple and sound economics involved in business enterprise. We decry the opportunistic attitudes of some who seek group advantage at the expense of the general welfare. We believe that glittering propaganda must ultimately yield to the austerity of simple arithmetic.

We shall do everything we can to emphasize the plain truth that improved living conditions and improved working conditions go hand in hand with the freedom of industry to invent, to invest in improvement and to progress.

Fundamentally, Link-Belt Company owes its origin and growth to ingenuity and the ability to serve mankind. An institution built around a basic idea of a better way to do a job (for that was what the Ewart link really was—back in 1875), will continue to provide better ways to do many jobs.

Link-Belt, built upon the ideal of lifting the burden from the backs of men . . . of increasing production at lower costs . . . of making available more goods to more people through the economies of mass production . . . of raising the living standards of people by spreading more widely the products of industry . . . naturally takes a long view of current events.

On this sound conception of values your Company faces the future with confidence paced by opportunity.

General Foods printed one year the following statement on the cover of its annual report:

Once there was a man who thought the public would buy a delicious and nourishing ready-cooked breakfast cereal. Some people laughed at his idea, but he had confidence and determination. He was successful. Through the years his idea built great factories to manufacture Post cereals. In the making and distributing of these products, thousands of new jobs were created. Many other men with faith and courage started the businesses that now form General Foods. Aided by investors and employes, they risked their savings and labor in the hope of earning a profit. Theirs was the spirit of American enterprise —the initiative and courage to balance the risk of loss against the prospect of gain, thus establishing and developing businesses that create the jobs essential to national prosperity. This is the spirit of all American industry under our system of voluntary enterprise. With proper incentives and with the support of public opinion, American enterprise can repeat in the future what it has accomplished in the past.

A foreword in a recent annual report of The Flintkote Company combined a brief summary of the year's activities with national objectives as follows:

> Under the stresses of perhaps the most significant year in recorded history, The Flintkote Company maintained operations and sales during 19— at a high level despite shortages of labor, unrealistic price ceilings and higher manufacturing costs.
>
> As the Nation and your Company face the dislocations caused by five years of war, the future holds promise of continued prosperity if our citizens insist on sound economic, fiscal and social planning so that our country remains the land of freedom and opportunity.
>
> Full production and wide distribution of the Company's building and industrial products, as well as those of the other major industries of the Nation, could bring the objectives sought:—fair wages, reasonable profits, homes for our veterans and a better living standard for all our people.

STATEMENT OF ANNUAL REPORT POLICY

A number of corporations explain their annual report policy with a few paragraphs in the president's letter, others include a full-page statement.

The National Dairy Products Corporation included the following policy statement in the president's letter:

> In the preparation of National Dairy's annual report the objective has always been to make the report truly informative, not only as regards financial data, but also to the end that it will project a clear picture of what the Company is doing and what it hopes to do.
>
> The management of National Dairy believes that its stockholders are entitled to more than a mere statistical report. Only when both stockholders and employees understand how a business operates, know where it came from and where it plans to go, can they supply the support and co-operation needed for the success of the mutual enterprise.
>
> In line with that policy, we hope the additions we have made to our report this year will provide more convenient reference to all aspects of National Dairy's business. We earnestly solicit your attention to each section in the hope you will know your Company better.

The full-page statement on annual report policy that follows was a foreword in an Electric Boat Company annual report.

> The management of Electric Boat Company several years ago established a policy to provide its stockholders with financial and other data about the Company that is both adequate in scope and understandable in form.
>
> The anachronistic, stereotyped, financial report is almost unanimously condemned by the present-day stockholder as being either overly technical, uninteresting, confusing or insufficient. For the most part corporation records are statistical in form. Statistics make notoriously dull reading. It requires much patient effort of the financial executive to draw up a report which will meet the understanding and stimulate the interest of the majority of his stockholder audience and at the same time meet the requirements of the professional investment counsel and analyst. It is the course of least resistance not to attempt to achieve this happy compromise. The common assumption that most stockholders are completely indifferent to their company's activities, its advancement and its existence as an established institution has been, as one result, too often justified.
>
> Some corporation executives, however, are of the opinion that much of this stockholder indifference and inattention may be, at least in part, overcome through plain and appealing corporate reporting. Experience has demonstrated that a very real and informed interest does frequently result. This in turn helps to strengthen and justify the venture capital principle which is basic in American industrial economics.
>
> This Annual Report for 1946, our forty-seventh year, represents, therefore, an effort to give as clear and as complete a record of operations for the current and past several years, and the background thereof, as is possible. We hope that information sufficient to provide a basis for an intelligent appraisal of equity values has been made available herein.
>
> From necessity this Company's earnings reports have for many past years been made but once a year as it has been impossible to reflect properly on a short term basis the operating results of a business where well over a year's time has been required in constructing, delivering and obtaining payment for a single unit of its major product. Now that the Com-

pany's activities have been more widely diversified, the management plans to report to stockholders at more frequent intervals.

The management furthermore pledges that it will, to the best of its ability, provide in all of its reports adequate and understandable facts, with the aim of arousing the keen personal interest of every stockholder. If this goal is advanced, even though never completely attained, it will have been worth the effort required.

TELLING ABOUT REPORT IMPROVEMENTS

When a corporation is preparing its first new type of report, it may want to call attention to the change. Here is how American Home Products Corporation announced the innovation to its stockholders. At the top of page one of the first of its modernized reports, it showed a photograph of its Chairman of the Board, Alvin G. Brush. Immediately below it reproduced the following letter from the chairman:

TO THE STOCKHOLDERS OF AMERICAN HOME PRODUCTS CORPORATION

A Personal Message From the Chairman of Your Board of Directors

In the pages which follow I have the pleasure of presenting to you a new kind of Report on the operations of your company.

You have helped supply the capital without which this business could not be conducted. Appearing in their appropriate place in this Year Book are financial statements showing how this capital has been cared for and employed; what profits it has yielded; and by what assets it is now represented.

But the full story of a business cannot be told by such financial reports alone, satisfactory as they are. Nor can its full value to its stockholders, its employees, its customers and its times be appraised from such statements.

Today we conceive it to be the responsibility of every business management to answer, not only the questions of the auditors, but such questions as these:

What contributions are you making to the winning of the war?

What planning have you done to insure a stronger, more effective business in the post-war world?

What steps have you taken to keep in the forefront of scientific and technological developments?

What policies have you adopted to make this business a source of human satisfaction to all who work in it and for it?

In short, a business such as American Home Products Corporation is today a social organism, with responsibilities extending in many directions, and touching the lives and welfare of millions of people.

In the full consciousness of such responsibilities, your management has tried to portray here something of what it is doing to meet them. I believe that you will find it a story in which you can well take pride.

Sincerely yours,
(*signed*) ALVIN G. BRUSH

Gerber Products Company included the following foreword in its expanded report:

FOREWORD

Annual reports are generally cold and impersonal things. Our entire operation is one of dealing with people—not things. People grow the foods that go into our products, people process these foods in our plants. People distribute them, sell them. All these efforts are based on the acceptance of Gerber Baby Foods by still another group of people—babies. As our business philosophy expresses it—"Babies Are The Most Important People."

So we've tried to get away from a strict, statistical presentation of progress made in the past year. This annual report is not, therefore, prepared only for the eyes of the trained financial analyst but for people—people whose investment in our Company may be represented in money or in farm equipment or in work.

(*signed*) DAN GERBER

In the conclusion to the president's letter, National Lead Company referred as follows to the enlargement of its report:

So that you, the Stockholders, may have a broader view of the scope of the activities of your Company, we have expanded somewhat the form of Annual Report used in previous years. It is hoped that you will find the section devoted to the Company's products interesting and informative and that the comparative form in which the financial statements are presented will facilitate your study of them.

Each year's report may introduce some new features that increase the effectiveness of the report. National Dairy Products explained such changes as follows, under the title "Graphic Facts":

Each year we have broadened the scope of our annual report to stockholders in the interest of comprehensiveness, visual clarity and comparative data. To this end, numerous features have been added to the report in recent years. Notable among them are the Review in Brief section at the beginning of the report and the Condensed Ten-Year Statements of Consolidated Assets and Liabilities and Profit and Loss which are contained in the Financial Statements at the back.

In line with this policy, it has been our practice to employ charts and graphs to supplement the information contained in the text. On this and the two following pages appear a visual presentation of a number of the salient facts concerning our financial position and operations.

GOVERNMENT RELATIONS

Government has its effect upon business in two ways: (1) Through its administrative policies, such as attitudes toward labor, foreign relations, taxes, legislation and the like; and (2) through actual or promised legislation, regulation and investigation, and through court decisions that hit particular industries or businesses.

The former, being of a basic and political nature, are usually not handled directly in the annual report. They may be referred to in statements of principles (see page 24), in remarks on policies (see page 22) or incidentally, in reports on other subjects—employee relations, for example, as at page 141.

But where the government has seriously influenced the operations of a particular company, or threatens to do so, an explanation is given to the stockholders, whether or not newspapers and other periodicals have treated the subject thoroughly. This explanation may give the substance of the requirement, the impact upon the company, the way in which it is adjusting to the change, and, possibly, how the industry in general is reacting to the condition.

Many examples might be given of the second type of government influence. The effects of the Public Utility Holding Company Act were covered for many years in annual reports of certain public utility companies. In recent years, the Supreme Court decision in the famous "portal to portal" case (*Anderson v. Mt. Clemens Pottery Co.,* (1946) 66 S.Ct. 1187) was mentioned in a number of reports. This case held that nonproductive time before and after regular working hours may be "hours worked" under the Wage and Hour Law. Corporations that faced the prospect of suits for wages as a result of that decision included some reference to the contingent liability in their annual reports. Anti-trust suits that affect the company are another example of government relations that need coverage in the annual report.

CHECKLISTS FOR COMMENTARY ON GOVERNMENT RELATIONS

The following checklist can be used as a reminder of government relations that ought to be covered:

Legislation enacted or threatened that affects the business.
Legislation advocated by the industry.
Rate changes.
Tariff policies.
Franchise matters.
Municipal ownership activities.
Reclassification of property to comply with a Uniform System of Accounts.
Proceedings before Federal or state commissions.
Tennessee Valley Authority relations.
Anti-trust suits.
Government and industry cooperation.
Grading and labeling.

The following checklist may be useful for covering the story:

What is the nature of the influence?
Is it Federal, state or local?
What industries are affected?
How does it specifically affect the company?
What is being done in the industry to adjust to the situation or protest it?
What is the company doing to adjust to the situation or protest it?
Will the stockholders be kept informed of developments during the year?
Can the stockholders do anything to coöperate with the company's program?

LITIGATION

Any important suits against the company by government or private interests should be reported upon in the annual report if loss of the suit would involve substantial payments or seriously affect the company's operations. Thus, anti-trust suits, suits against the company for "portal to portal" pay, for patent infringement, for royalties, and the like, are usually reported upon. If the corporation brings suit against others, the case may or may not be mentioned. If the case has aroused public interest, it should undoubtedly be reported upon.

Sometimes the contingent liability involved in pending litigation is brought out in a note to the financial statements.

OUTSIDE FACTORS

Outside factors affecting the company also fall into two groups—those that apply to the industry generally, and those that affect the particular company. Competition, conditions in consumer industries, and rural electrification, for example, are outside factors that may closely touch the company's welfare. They have often received specific treatment in annual reports. On the other hand, the economic situation and the rising costs of government are matters influencing business generally, and their treatment is usually incidental to other discussions.

Under the heading of outside factors may come matters of public relations. The company may report upon any phase of its public relations program, either separately or in connection with other activities. For example, in reporting on research, it may show the grants that have been made to universities and other research institutions; in the employee section, it may show how facilities available to employees are used by the community. For a more detailed discussion of coverage of public relations in the annual report, see Chapter 20.

PLANS FOR THE FUTURE

Companies cannot afford to overlook the fact that stockholders want to know what the future holds for the company. It is usually foolhardy to make specific forecasts, for external factors have a way of interfering with the best laid plans. What stockholder wants to see a printed forecast by its executives proved wrong by actual developments? A safe rule is to show what the company is prepared to do should a rise in business occur. This subject is usually best handled in connection with the report on various phases of the business. In the report on sales there is room for showing trends and plans for new products; in the production report, comment may be made on methods and procedures for increasing output; in the discussion of the plant, equipment and facilities, the expansion program may be covered; in the costs section, methods of cutting costs may be indicated; in discussing financial conditions, plans to raise capital for expansion may be noted; in the employees section, training programs may be covered; in the section on products and how they are sold, advertising plans may be enumerated.

This does not mean that the corporation should omit a section on the outlook for the company. It merely means that the projection into the future should be made in general terms. The future of any company is tied up with the economic future of the United States. For that reason many corporations bring into the opinion on the business outlook a statement of the beliefs on which they base their day-to-day efforts. This is an excellent place to carry the message of what business recognizes as its contribution toward strengthening the private-enterprise system. An example is given below from an annual report of ATF, Incorporated.

And Now the Future

The most difficult question which stockholders ask me in their letters is "What Are Future Prospects?" When confronted with this question dozens of considerations flash through my mind.

The future of this company is inextricably tied to the economic future of the United States. And, continued prosperity in this country hinges on many factors—American foreign policy, taxation, strikes and our participation in world economic affairs. All of these factors place business management in the position of having continually to adjust policies and plans to offset the cross currents set up by every maneuver of politicians, every impact of foreign economic turn of events, power-grabbing moves of certain greedy labor leaders, and the efforts of amateur economic dabblers.

The American public generally and many of the people whom they elect to political office do not understand economic forces. Nor do they realize that agriculture and business are the foundations upon which the economic, and consequently the social, welfare of the citizenry must be founded. This lack of information has been used to great advantage by the communists and self-seeking interests who see selfish opportunity in chaos, and who try to bring about this chaos through distortion of facts. *The businessman must of necessity assume the burden of placing before the public the actual facts of business operation* and must demonstrate the way in which the welfare of the individual ties in with that of business. He must show the public that profits come through the rendering of service, and that profits instead of being a burden upon the consumer are the one and only means of assuring the consumer lower prices and higher standards of living. This education cannot be done through an advertising campaign. It must be done on the community level by making the people in the community familiar with the operations of the businesses within the community.

Business has another obligation and that is to do what it can to soften both economic peaks and depressions. I hold no theory that peaks and depressions can be eliminated entirely. As long as governments make wars, as long as governments fumble both internal and international trade relations, and as long as human psychology remains as it is, there are going to be waves in the business cycle. The businessman, because of his key position in the economic structure, is the only one in a position to soften the effects of both economic peaks and depressions. Government can help but government cannot do the job alone. All that government alone can do is to bring the whole economy down to the level of the valleys, and only by placing the entire people in a continuous state of depression can it eliminate economic variations. This is all that dictators and governmental controls have ever been able to do.

The fact that many of the outstanding leaders of business are acutely aware of the necessity of statesmanship in business, and the fact that this awareness is governing their actions, is one of the most encouraging phenomena of the times.

Your own company is doing its conscientious best in rising to the solution of these problems. We are inviting the people of the community into our plants so that they may see how we function and how we affect their daily lives. Your company is also supporting and actively working with such organizations as the Committee for Economic Development and the National Planning Association. The first is a group of businessmen and the second a group of men in business, agriculture and labor. Both organizations are making an earnest effort to place sound economic principles in the hands of all businessmen so that management will be in a better position to guide their companies in the interests of society as a whole.

Thomas R. Jones

EXPRESSIONS OF APPRECIATION

The person signing the "letter" in which the report is embodied may want to include an expression of appreciation for the loyal and faithful services of labor, salaried employees, management and the board of directors, and for the support of the stockholders and the public. Sincerity is the one essential of such a statement. It must not be or appear to be a mere perfunctory closing remark.

ADDING INTEREST WITH EDUCATIONAL MATTER

The annual report is a story of the company's accomplishments for the year, but it need not end there. It can include material related to the company's business that is interesting and educational. Such a report is not likely to be thrown away quickly by the stockholders or other readers.

Macfadden Publications Inc. has made its report a useful educational instrument that can have value in building good public relations for the company. One year it devoted a portion of its report to the operations of the publishing business, editorial, advertising, circulation, traffic, shipping, and so on. The following year, the closing portion of the report contained a vivid word-picture story of the processes of "transforming millions of acres of wilderness into bright and colorful magazines." In this part of the report the reader was taken behind the scenes to see some of the steps that are taken by the companies from whom Macfadden buys its paper and printing. The twelve pages of excellent photographs, with 150 words of copy for each seven-by-eight-inch picture, took the reader "on a whirlwind tour from the great forests of the northwest and south, through the giant paper-making plants, through engraving and printing processes, to the final delivery of Macfadden magazines . . ." Macfadden's report measured 10½″ × 8″. The cover, which went with the story of paper, simulated the appearance of knotty pine.

Other examples of educational material are given at page 281.

INCLUDING NOTICE OF ANNUAL MEETING

Where the annual report is mailed to stockholders before an annual meeting, a notice of the forthcoming meeting may be included on the title page of the report. Such notice does not, of course, obviate the necessity for sending the regular notice called for by statute or by-laws. For example, on the title page of a Coca-Cola Company annual report to stockholders is the following statement:

> The annual meeting of the stockholders will be held on Monday, May 5, 19—. A formal notice of this meeting, together with proxy and proxy statement, will be mailed to each common stockholder on or about April 10, 19—, at which time proxies will be solicited by the management.

A variation of the above form is the inclusion of a box on the inside cover, like the following:

> NOTICE TO COMMON STOCKHOLDERS
>
> It is expected that on or about June 1, 19—, a proxy statement will be sent, and that proxies for use at the Annual Stockholders' Meeting will be requested from Common Stockholders.

The American Encaustic Tiling Co. included a slip with the report which read: "A summary account of any matters of importance or general interest which may transpire at the stockholders' meeting will be available thereafter to inquiring stockholders on request." (See Chapter 18 for discussion of reporting to stockholders on stockholders' meetings.)

STATEMENTS INFLUENCED BY SECURITIES EXCHANGE ACT OF 1934

Under the rules of the Securities Exchange Commission (Reg. X-14), before a proxy may be solicited from stockholders for an election of directors, stockholders must be furnished with an annual report containing financial statements for the last fiscal year. Copies of the annual report to stockholders must be mailed to the Commission in order that it may check compliance with the rule. The Commission does not consider the annual report to be proxy-solicitation material "filed" with the Commission or subject to the proxy rules or to the liabilities of Section 18 of the Act, except in cases in which the corporation specifically requests that it be treated as part of the proxy-soliciting material or in cases in which it is incorporated in the proxy statement by reference. This rule pertains whether the annual report is sent to the stockholders and to the Commission in advance of the proxy statement or with it. (*SEC release No. 3380,* 2/5/43.)

The following statement may be used, if recommended as pertinent by the company's attorney, where the annual report is mailed prior to the solicitation of proxies.[1]

> Proxies for the annual meeting of stockholders, to be held ——, 19—, will be requested later and the mailing to stockholders of the notice of meeting, proxy statement and proxy will be started on or about ——, 19—. This annual report is not sent to you in connection with the solicitation of proxies for the annual meeting, is not additional material relating to the same meeting and is not to be deemed to be incorporated in the proxy-soliciting material by reference or to be a part of the proxy statement to be sent to stockholders pursuant to Regulation X-14 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

The proxy statement, in instances where the above form is used, might state:

> The mailing to shareholders of the annual report of the —— Company containing financial statements for the fiscal year ending ——, — was begun on ——, 19—, and such annual report is not incorporated in this proxy statement by reference and is not to be deemed to be a part of the proxy soliciting material.

A simpler form that has been used, reads:

> This report is sent to stockholders of the company in advance of the solicitation by the management of proxies for the annual meeting of stockholders to be held ——, 19—. Proxies will be solicited, and a proxy statement will be sent to stockholders at a later date commencing on or about ——, —.

STATEMENT INFLUENCED BY SECURITIES ACT OF 1933

The Securities Act of 1933 requires that before new offerings of securities may be made to the public through the mails or through the channels of interstate commerce, the securities, with certain exceptions, must be registered with the Securities and Exchange Commission by the filing of a registration statement. This statement must contain certain specified details regarding the securities, calculated to enable the buying public to judge the value of the security offered. The Act also requires the use of prospectuses containing information similar to that contained in the registration statement. Civil liabilities and criminal penalties are imposed for noncompliance with registration and prospectus requirements.

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[1] The above form was set forth in "Outline of Lecture on Solicitation of Proxies" by Arthur H. Dean, Esq., and is reproduced with permission in the *Prentice-Hall Securities Regulation Service.*

Because of these stringent regulations about selling, some companies, under advice of their attorneys, take the precaution of including a statement such as the following on the inside cover or title page of the annual report:

> This report, including the financial statements contained herein, is submitted for the general information of the stockholders of the Company as such, and is not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company. It is not furnished and is not to be used as a prospectus, representation or statement to anyone in respect of any security at any time.

A briefer statement, such as the following, may be used:

> This report and accompanying financial statements are submitted for information of stockholders, and are not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities; neither do they constitute part of any proxy-solicitation material.

FINANCIAL STATEMENTS

The annual report invariably presents the following financial statements: (1) Balance sheet, (2) income statement and (3) statement of surplus (if this data is not combined with the income statement).

These financial statements are the *raison d'être* of the annual report. They may be required by the laws under which the corporation is organized, by an exchange on which the corporation's securities are listed, by the Securities and Exchange Commission, or by the by-laws of the corporation. The company's accounting officers and the auditors will usually see that the statements meet all of the requirements.

The financial statements should not be treated as of secondary importance merely because they are prepared separately and are submitted as "finished" some time near the deadline of the report. The major part of the report should be an interpretation of the statements to the reader. The story, to be sure, can be told adroitly in the narrative, charts, graphs, pictorial illustrations, and highlighted bits of statistics—so skilfully told, in fact, that a stockholder can get the entire significance of the financial statements without looking at them.

Nevertheless, the financial statements, as such, should be called to his attention. But calling attention to a balance sheet, income statement, and statement of surplus that is intelligible only to accountants, financial experts, and others trained in accounting terminology, is neither wise nor helpful to good stockholder relations. For this reason, progressive corporations have given close attention to simplifying their financial statements. They recognize, however, that a balance sheet and income statement that is simple enough to be understood by the lay reader will not provide all the information expected by the trained analyst. Many annual reports consequently present accounting data in two forms. The first is a set of simplified, interpreted financial statements that frequently appear in or adjoining the narrative section. The financial statements are then presented again, more completely, in the formal balance sheet, income statement and statement of surplus that usually follow the narrative.

It is entirely possible, in some instances, to prepare one set of simplified financial statements that satisfy both the nonprofessional investor and the financial expert. In other cases—for example, railroad companies—it is utterly impossible to do so. The accounting data must be presented in two distinct forms, a simplified form and a conventional form.

The techniques that have been used in making financial statements more understandable are treated fully in Chapter 14.

GREATER DISCLOSURE NEEDED

The basic rules in presenting financial statements should be: (1) Reveal all material facts, (2) indicate the accounting practices used, (3) explain the nature of any changes in accounting principles and their application. If this general rule were seriously observed by all corporations, financial statements would be less open to the criticism of inadequate disclosure than they now are.[2]

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[2] A report of the Securities and Exchange Commission to Congress in June 1946, urging amendment of the Securities Exchange Act of 1934 to extend to investors in unregistered securities, shows how backward many companies are in their financial reporting.

The SEC studied the annual reports of seventy companies having 300 or more stockholders and $3,000,000 or more of total assets. It found the following deficiencies:

Here are some of the balance-sheet deficiencies in current reporting practices:[3]

1. Many companies still do not offer comparative statements.
2. Full information on investments in securities of subsidiaries is frequently lacking.
3. The reserve for doubtful accounts receivable is not always indicated as a separate figure.
4. Additional data on inventory valuation is necessary in many instances.
5. Schedules showing what items make up the property, plant and equipment account are offered in too few reports. Similarly, schedules showing the allocation of the provision for depreciation to the various fixed assets are lacking.
6. The nature of deferred charges is not disclosed in many cases.
7. In reporting on indebtedness, insufficient information is given on due dates and the assets pledged against the debt.
8. The capital-stock section is too indefinite as to shares authorized and outstanding, par value and stated value, and the characteristics of preferred stock.

The deficiencies in income statements are even more pronounced, for very few companies give a breakdown of the cost of sales. Many income statements open with "Net operating profits before taxes." The reason usually given for withholding information on costs of goods sold and other operating costs is: "You can't make that information available to competitors." But why not? The harm may be more imaginary than real. Companies that once hesitated to breathe a word about directors' and officers' salaries have been reporting fully on such costs to the Securities and Exchange Commission and in proxy statements. They have not suffered from the disclosure. The companies in competitive fields that have been giving full financial data year in and year out—and a number have—apparently have not been hurt by the practice. Besides, isn't it true that competitors usually get to know the other fellow's costs of doing business by the "grapevine" method? The figures might just as well be published. If it became universal practice to report the costs of goods sold and show the breakdown, no one would have an advantage over anyone else.

For ideas for reporting fully on costs of doing business, see page 73.

IDEAS FOR BETTER FINANCIAL REPORTING

Those who use the annual report to rate the company for investment or credit purposes will focus their attention upon the auditor's financial statements. Although all corporations are not essentially concerned with serving this group, it is true that what serves them may also serve the stockholders and others interested in the report. The recommendations for better financial reporting that are made in the following pages have, therefore, all groups of readers in mind.

OFFERING COMPARATIVE STATEMENTS

Corporate executives do not have to be told the advantages of comparative financial statements. They prepare and use them for managerial purposes; they require them in testing the financial standing of those who seek credit from them. Yet they are lax in offering comparative figures in their own annual reports. Out of a group of one hundred recent annual reports (industrials, railroads and public utilities), selected at random, only forty-six gave dollar comparisons with the

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1. A substantial number failed to file a full set of financial statements—balance sheet, income statement, and statement of surplus.
2. Slightly more than half of the balance sheets were materially deficient when compared with the reporting requirements of the 1934 Act.
3. About 13% furnished no income statement at all and no statement of surplus.
4. About 34% of those which gave an income statement did not disclose the amount of sales or cost of goods sold.
5. In some instances, improper and unsound accounting practices were revealed.
6. No company presented all the footnotes that would have been required in a filing with the Commission.
7. Most of the reports were accompanied by a president's letter that merely repeated financial facts appearing in the financial statements.
8. 90% of the financial statements were certified by public accountants or certified public accountants, showing that certification is no assurance of reasonably adequate information.

It must be remembered, however, that very few companies that file financial statements with SEC give equally comprehensive information in their annual reports to stockholders. Some of the deficiencies noted above, therefore, are exaggerated. Accountants who do not consider the form of report to SEC the ultimate of perfection in financial statements, consider the SEC criticisms unwarranted.

[3] See "Current Practice in Disclosure of Information in Financial Statements," by Charles S. Rockey, *Journal of Accountancy*, Sept. 1947.

previous year, eight showed dollar increases or decreases in addition to the previous year's figures, one gave percentage comparisons, and twelve gave figures for more than two years in statistical summaries.

Those responsible for getting out the corporate annual report reason thus, apparently, in omitting comparative data: (1) The current year's figures are sufficient to show what happened during the year, (2) stockholders do not bother to make complete financial analyses and therefore giving them comparative figures is a waste of effort, (3) anyone really interested in comparative figures would keep the previous year's reports and make the comparison himself, (4) too much is told if comparative figures are given.

This type of reasoning makes for distrust by the general public and hurts stockholder relations. The reporting company should want to offer comparative statements because:

1. The practice gives stockholders and others who see the report the impression that the company is hiding nothing, and it helps to break down public distrust of published figures.
2. Distorted impressions may be received from a single year's statements if comparative figures are not given. Businessmen should aim to prevent misinterpretation of figures.
3. For financial analysts, the annual report is the first and best source of information. The analyst looks for comprehensive information and comparative statements. By offering complete financial data, the corporation helps build goodwill among a group of people who rate the company's securities and comment upon its prospects.

COMPARATIVE AND ANALYTICAL DATA

The following list of ways in which comparative and analytical data might be given is based upon an examination of the most comprehensive reports that have been distributed to stockholders.

1. Give dollar figures for the current year and preceding year in the balance sheet and income statement. The usual way is to present two columns of figures, one for each year. A novel way is to print the previous year's figures in red, using small type, immediately below the current year's figures.
2. Same as (1), but in addition show increases in an "Increase" and decreases in a "Decrease" column. If one column marked "Increase or Decrease" is used, identify the figures representing decreases. Print them in italics with an asterisk (*) or capital "D" or capital "I" before or after the figure, or use plus and minus signs.
3. Same as (2), but in addition show the percentage increase or decrease in each item over the previous year. These figures are known as analytical per cents of the *horizontal* type. If the pages are to be printed in two colors, the second color can be used to draw attention to *either* increases or decreases.
4. Same as (1). In addition, in the balance sheet show for each year the percentage that each item bears to the balance-sheet total, the latter representing 100%. In the income statement, show the per cent of each item related to the net sales, the latter representing 100%. These figures are analytical percentages of the *vertical* type—so called because the per cents apply to related amounts usually shown in a column.
5. Same as (1). Then show the relationship of the later amount to the earlier amount by ratios. These ratios are obtained by dividing the amount for the later date or period by the amount for the earlier date or period. The ratios are expressed as a percentage or decimal, thus:

	December 31		
	1947	*1946*	*1947 Ratio to 1946*
Cash	$ 8,000.00	$20,000.00	40% or .40
Receivables . . .	21,000.00	15,000.00	140% or 1.40

This use of ratios is rare in annual reports to stockholders. Nevertheless, it has the following advantages over showing the percentage of increase or decrease between the figures compared:

(a) Where percentage of increase or decrease is used, a distinction must be made by italics and other marks to distinguish a decrease from an increase. Italics are avoided in the use of ratios since they are all on a common base—the ratio of the later amount to the earlier one.

(b) The ratio comparison may be easier to grasp than the percentage of increase or decrease where large per cents are shown.

For example, where an item has increased from \$100,000 to \$1,500,000, the percentage of increase would be shown as 1400%. The ratio can be shown as 15. It is easier to sense the change if one reads that an item is 15 times as large as another item than if one has to mull over the meaning of a 1400% increase.

6. Give comparative balance sheets and income statements for a five-year or ten-year period. Such statements are usually given only in dollar figures.
7. Give statistical tables covering a number of years for various subjects reported upon. These tables are amply illustrated in the ideas for statistical presentations that will be found in Chapters 5 through 12. See especially pages 40 et seq. and 116 et seq.
8. Use charts, graphs and pictorial illustrations to show comparisons, trends and developments over a period of years. See page 204.

MAKING STATEMENTS TRULY COMPARABLE

Whenever comparative statements are offered in the annual report, care should be taken to see that the items and amounts are truly comparable. Too often the comparative statements consist of summaries of data originally reported for each of the years and do not reflect adjustments later determined to be applicable to those years.

The following situations may call for adjustments or explanations before figures for later years can be accurately compared with those of earlier years.

1. An unusual item of a nonrecurring nature may be reflected in the figures for a particular year. For example, a refund of Federal taxes, a loss by fire or other casualty, settlement of a lawsuit, collection of a claim against the government. Such items should have attention called to them.
2. A change in capitalization. For example, if earnings per share of common stock are shown in a comparative statement and in one year they were based on 200,000 shares of stock outstanding and in another on 400,000 because the shares had been split two for one, the data is not comparable. An explanation of the change is essential to a correct interpretation of the figures.
3. A change in accounting treatment or classification. For example, in one year tax-refund bonds may have been shown among "Other Assets" because the amount was insignificant. In the following year, tax-refund bonds may have been included in "Investments" because the amount was large. Adjustment is necessary for a true comparison.
4. A change in terminology or form of the financial statements. At page 178 reference is made to a radical change made by Caterpillar Tractor Co. in the form of its published balance sheet. The balance sheets for previous years had to be converted to the new set-up to permit ready comparison with earlier years.
5. Changes in tax laws, government regulations, methods of operation and the like. A year that has been marked by drastic changes—for example, conversion of an entire plant, involving stoppage of operations—is not a normal one. Such abnormal years must be considered when comparisons are made.

In the case of consolidated financial statements, not only may the above influences have to be considered for each individual company in the consolidated group, but the following conditions may also call for adjustment or explanation to assure comparability:

1. Do all the companies included in the consolidated statements have the same closing dates for the balance sheets or the same accounting periods for the income statement?
2. Do the accounting classifications differ in the various units?
3. Is there uniformity of treatment of similar items in the separate companies?
4. Are the principles of valuation applied to property, inventories, securities and other assets different among the various subsidiaries?

What adjustments and explanations should be made to insure comparability is usually left to the controller and accountants. The methods, however, are generally the following:

1. The figures originally reported are revised to permit comparison.
2. If changes cannot be incorporated into the comparative data, items requiring explanation are called to the attention of the reader by notes. These notes are usually explained at the close of the statements.

3. Explanations are given in the narrative portion of the report to show influences that affect true comparisons.

HELPFUL RATIOS

We referred previously to ratio comparisons between the current year's figures in the financial statements and those for the preceding year, as a means of pointing out changes. Here we refer to ratios of an analytic nature, ratios that show a comparison of specific items or groups of items to determine whether accounts receivable, fixed assets, accounts payable, sales, costs of operation and profits are in satisfactory relationship to other related items. Such ratios are used in credit and investment analysis.

Dun & Bradstreet, Inc., annually publishes tables showing fourteen important ratios over five-year periods for some seventy-two different lines of industry and commerce, including manufacturers, wholesalers, and retailers. These ratios give a fairly wide basis of comparison in analyzing statements for companies in the lines covered. Executives may want to consider presenting some of these ratios in their annual reports.

1. Three important *capital* ratios:
    - (a) Fixed assets to tangible net worth (per cent).
    - (b) Total debt to tangible net worth (per cent).
    - (c) Net working capital represented by funded debt (per cent).
2. Three important *inventory* ratios:
    - (a) Net sales to inventory (times).
    - (b) Net working capital represented by inventory (per cent).
    - (c) Inventory covered by current debt (per cent).
3. Three important *sales* ratios:
    - (a) Average collection period (days).
    - (b) Turnover of tangible net worth (times).
    - (c) Turnover of net working capital (times).
4. Three important *net profits* ratios:
    - (a) Net profits on net sales (per cent).
    - (b) Net profits on tangible net worth (per cent).
    - (c) Net profits on net working capital (per cent).
5. Two important *supplementary* ratios:
    - (a) Current assets to current debt (times).
    - (b) Total debt to tangible net worth (per cent).

These ratios are discussed in *Practical Bank Credit* by Prochnow and Foulke, published by Prentice-Hall, Inc.

Most corporations have not, up to now, considered it necessary to offer in the annual report anything more than the following three ratios:

1. *Operating ratio.* This ratio shows the relationship of operating expenses to gross income. It is usually found in railroad and public-utility reports, rarely in industrial reports.
2. *Working-capital ratio.* This ratio, sometimes called "current ratio," is found by dividing the total current assets by the current liabilities. The quotient shows how many dollars of current assets there are for each dollar of current liabilities. This working-capital ratio is generally included in the comments upon the financial condition of the company, in the balance sheet or in statistics of progress. For example, see page 119.
3. *Quick ratio.* In this ratio, instead of dividing the total current assets by the current liabilities, inventories and other nonliquid items are omitted from the current assets and only the total of the cash, receivables and marketable securities (quick current assets or "dollar" assets) is used as the numerator of the fraction. Some corporations give this ratio in addition to the working-capital ratio or instead of the working-capital ratio, in the comments upon financial condition.

In exceptional cases, additional ratios are offered in the annual report. An example is given at page 117.

THE AUDITOR'S REPORT

One portion of the annual report that has not received sufficient attention from the modernizers is the independent auditor's report that usually follows the financial statements. The editors of *The Journal of Accountancy* suggested in the April 1947 issue: "Perhaps management should devote some space in the text of the report to a discussion of the value of the independent audit to the stockholders who receive it." The magazine offered the following suggested paragraphs for this purpose:

> Your company has retained certified public accountants to conduct an independent audit of the

financial statements which are reproduced in conjunction with this report, together with the auditors' report of their findings.

The auditors do not guarantee the financial statements; they are not insurers. But they are experts who are entirely independent of the management. The purpose of their work is to test the validity of the company's accounting and check the judgment of the management in presenting its financial position and results of operations in accordance with generally accepted accounting principles. Stockholders should read and consider what the auditors say.

Such a statement would eliminate any misconception that the auditors' report guarantees the financial statement, and it would probably be read by more stockholders than read the auditors' report.

TABLE OF CONTENTS—INDEX

A good report deserves a table of contents regardless of the size of the report. Of course, the big-

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[*American Home Products*]

ger the report the more essential a table of contents.

Tables of contents are generally of three types:

1. A listing of the subject matter in page order, with no center headings.
2. A listing of the subject matter with center headings that show such groupings as Operations and Activities. Financial Review, Statements.
3. The same as (2) plus other groupings of items culled from various parts of the report, such as pictures, charts and the like. This method is illustrated in the Table of Contents of an American Home Products Yearbook, which is reproduced on page 36.

A table of contents is usually adequate for locating material in the annual report. A very long report, however, should have an alphabetical index at the back. *Do not call any listing of contents an index unless it is an alphabetical listing.*

SHOWING RESULTS AT A GLANCE

The following methods are used for showing results of the year's operations at a glance:

1. Management selects the most important parts of the report and highlights them with brief statements *supported by figures.*
2. The outstanding developments in the affairs of the company for the year are listed; not a single supporting figure is given.
3. A summary statistical table of items that reflect the year's accomplishments is presented. See page 212 for periods generally compared.
4. A group of important facts and figures that reflect progress is selected and presented in pictorial graphic form.

HIGHLIGHTS

A number of items taken from reports that highlight events of the year are reproduced below.[1] They have been chosen to illustrate the type of item selected and to show what is considered suitable treatment in a highlight.

Production

Production in 19— was adversely affected by the ...... strike against ...... and by material shortages resulting, for the most part, from strikes in suppliers' plants. Virtually no cars or trucks were produced in the first quarter of the year. Production in the second quarter was —% of the average 19— rate; in the third, —%; and in the fourth, —%.

* * *

Average price of the company's products during the — years ending December 31, 19— rose less than —% over the 19— average.

* * *

Surveys show that —% of all homes and farms in the general area served are now enjoying electric service.

A total of — extensions were built in 19— to bring the benefits of low-cost electric service to — new customers.

Sales

Sales of $—— for the year exceeded those of 19— by $——, a —% increase, and —% ahead of the company's best pre-war year.

Earnings

Earnings for the year represented $— per share of common stock, as compared with $— the previous year.

* * *

Net income advanced to $——, an increase of $—— over 19—.

Expansion of Research

More than $—— were spent on new construction, plant additions and improvements during the year.

* * *

Carrying forward our projected program for expanded service, new branches were opened in ——, ——, and ——. This increased our total number of branches to —.

* * *

Net additions to property, plant and equipment amounted to $—— during 19—, reflecting the beginning of a program of expansion and improvement which may involve an expenditure of $—— to $—— within the next two or three years.

* * *

Research activities were nearly doubled in 19—, and a number of new products were introduced.

* * *

Foreign licensees at present include 24 active bottlers, operating in various countries. An additional number are ready to begin operations as soon as machinery can be secured.

---

[1] National Gypsum Co., Blaw-Knox Co., A. E. Staley Manufacturing Company, Tilo Roofing Co., Inc., General Motors Corporation, Puget Sound Power & Light Co., Allegheny Ludlum Steel Corporation, American Home Products Corporation, Canada Dry Ginger Ale, Incorporated.

Financial

The ratio of current assets to current liabilities on December 31, 19— was — to 1, based on current assets of $—— and current liabilities of $——.

The working capital has decreased from $—— on December 31, 19— to $—— on December 31, 19— due to the redemption of the preferred stock.

* * *

At the end of the year inventories were about $—— lower than at the end of 19—, leaving inventory on hand equal to about — weeks of sales.

* * *

Working capital increased by $—— and amounted to $—— at the year-end.

* * *

Balance sheet assets as of December 31, 19— amounted to $——, an increase of $—— over a year ago.

* * *

During the year, —— shares of preferred and —— shares of common stock were sold for $——.

* * *

On ——, 19—, the Company sold $—— of —% promissory notes to eight insurance companies. On ——, 19—, it sold — shares of preferred stock to a nationwide group of underwriters for a total of $——. Proceeds of the sales are being used for plant and expenditure and to meet increased working capital requirements.

* * *

The preferred stock was retired on December 1, 19—, at $— per share, leaving common stock as the sole outstanding security of the company.

* * *

During the year the Company sold —— shares of $4.25 Cumulative Preferred Stock, the proceeds from which will be used for new building and expansion of both the carbonated and alcoholic beverage business. This stock was first offered to Common stockholders of the Company, and —% of the entire issue was taken under the warrants granted to them.

Employment and Wages

The average number of salaried and hourly-rate employees on the payrolls in 19— was ——, compared with —— in 19—. Total payrolls were $——, compared with $—— in 19—.

New wage scales were adopted, increasing hourly rates in both —— and —— plants by — cents.

* * *

Wage, salary, and pension payments for the year amounted to $——, or — cents out of each revenue dollar for the year. This compares with $—— in 19—, or — cents from each revenue dollar.

* * *

Wages and salaries paid during the year amounted to $——.

* * *

Labor relations were good. There were no work stoppages.

Taxes

Taxes payable for the year 19— totaled $——, an increase of $—— or —% over 19—. These payments of Federal, State and local governments exceeded the total amount of payroll charged to operating expenses.

* * *

The Company's taxes for 19—, as shown in the Income Statement, were — cents of each dollar of operating revenues, amount to $— per employee, and to $— per share of Common Stock, or more than — times the net earnings per share of Common Stock.

* * *

Taxes provided for in 19— amounted to $——, compared to $—— in 19—.

Stockholders

The stockholders' investment in the Company amounts to $——, or $— per share at December 31, 19—, an increase of $— per share for the year.

* * *

Stockholders numbered —— as of December 31, 19—, with no one individual holding more than —% of the common shares outstanding.

* * *

A total of —— shares of common stock was outstanding on December 31, 19—, as compared with —— at the end of 19—.

Dividends

A conservative dividend policy was followed in view of the substantial modernization and expansion program. A share-for-share stock dividend in common stock was issued to common stockholders. In addition to dividends on preference stock, cash dividends equal to $— per share on the outstanding common stock were paid.

SHOWING RESULTS AT A GLANCE

IDEAS FOR CHARTS AND GRAPHS

A year's progress can be shown effectively through pictorial graphs such as are illustrated at pages 43 et seq.

IDEAS FOR STATISTICAL SUMMARIES

To show results at a glance through statistical summaries, management selects the important figures in the financial statements. Other figures may be compiled especially for the report. A number of examples are given below. Additional ideas for statistical summaries are given in Chapter 9. These summaries do not take the place of simplified financial statements, discussed in Chapter 14.

RESULTS AT A GLANCE FOR 19—

Net sales	$
Net profits	
Net income per share	
Taxes	
Taxes per share	
Dividends	
Dividends per share	
Dollar sales increase over 19—	

SUMMARY OF OPERATIONS

	19—	19—
Orders Booked	$	$
Orders Completed		
Billings Against Orders		
Uncompleted Orders, December 31		
Net Income before Federal Tax and Appropriations		
Federal Tax		
Appropriation to Reserves		
Net Income carried to Surplus		
Per Share Common	$	$
Dividends Declared and Paid:		
Preferred		
Common		

Dividends Paid	Per Share Common Stock	Per Share Preferred Stock
March 20, 19—	$	$
June 20, 19—		
September 20, 19—		
December 20, 19—		
Total for Year	$	$

HIGHLIGHTS OF THE YEAR'S OPERATIONS

	19—	19—	Increase %
VOLUME OF BUSINESS			
Orders Received	$	$	%
Sales Billed			%
PROVISION FOR TAXES			
Federal Taxes on Income			%
All Other Taxes			%
Total Taxes for Year			%
PROFITS AND DIVIDENDS			
Profit Before Provision for Federal Taxes on Income			%
Profit Available for Dividends			%
Dividends Declared			%
EMPLOYEES AND THEIR EARNINGS			
Number of Employees December 31			%
Average Number of Employees			%
Total Earnings of Employees	$	$	%
Average Annual Earnings per Employee	$	$	%

19— REPORT IN BRIEF

COMPARED WITH 19—

			19—	19—
Total business done			$	$
Total costs of doing business:				
	19—	19—		
Wages-salaries	$	$		
Taxes				
Other costs	____	____		
			$	$
Net earnings			$	$
Paid in dividends to stockholders			$	$

SUMMARY

	19—	19—
Sales	$	$
Total Income	$	$
Net Income	$	$
Net Income per Share		
On —— shares	$	
On —— shares		$
Dividends	$	$
Current Assets	$	$
Current Liabilities	$	$
Earned Surplus	$	$
Stockholders		

COMPARISON OF THE COMPANY'S BUSINESS FOR 19— AND 19—

	19—	19—
Net Sales:		
Dollars (net)	$	$
Tonnage	tons	tons
Price realized per ton	$	$
Per share of stock	$	$
Net Profit:		
Total	$	$
Percentage of sales	per cent	per cent
Per share of stock	$	$
Dividends:		
Total	$	$
Percentage of net profit	per cent	per cent
Per share of stock	$	$
Number of stockholders		
Wages and Salaries:		
Total	$	$
Percentage of sales	per cent	per cent
Average number of employees		
Direct Taxes:		
Total	$	$
Per share of stock	$	$
Percentage of dividends	per cent	per cent
Percentage of net profit	per cent	per cent
Per employee	$	$
Break-down of Direct Taxes:		
Federal taxes	$	$
Foreign taxes		
Social Security taxes		
Property taxes		
Franchise taxes		
Miscellaneous direct taxes		
Total Direct Taxes	$	$

19— IN BRIEF

	19—	19—	19—
Operating revenues (millions of dollars)			
Operating expenses (millions of dollars)			
Operating ratio			
Net operating revenues (millions of dollars)			
Taxes (millions of dollars)			
Net income (millions of dollars)			
Dividends (millions of dollars)			
Revenue ton miles (millions)			
Revenue per ton mile (cents)			
Wages (millions of dollars)			
Earnings per common share (dollars)			
Taxes per common share (dollars)			
Dividends per common share (dollars)			
Times fixed charges earned			

19—
AT A GLANCE
COMPARED WITH 19—

	19—	19—
From the sale of goods and services, we received	$	$
To run our business, pay our employes and buy goods, and provide reserves, cost us		
This left, before Federal income taxes	$	$
To pay Federal income taxes (our contribution to the cost of Government)		
This left net income of	$	$
or in per cent of sales		
Preferred shareholders received		
Common shareholders received ($— per share, the same as last year)		
This left earnings in excess of dividends paid, which have been retained in the business for use in financing the future growth of ——	$	$

EXCERPTS FROM GENERAL SUMMARIES

The excerpts given below illustrate statements that sum up briefly a year's activities and management's estimate of the accomplishment. Such statements usually appear at the opening or closing of the president's letter. They gain interest by omitting statistics and by showing management objectives.

General Review

In 19—, the huge backlog of unsatisfied consumer wants and needs following the war years, coupled with high purchasing power, created the greatest peacetime demand ever experienced for the products of industry as a whole. Likewise, demand for the Company's products, as well as its total production volume, far exceeded that of any previous peacetime year. A higher volume of production and sales would have been possible and our customers' needs could have been more fully satisfied had it not been for the effect of nationwide labor disputes. Existing shortages of critical materials were aggravated by this condition which frequently resulted in prolonged interruptions to our supply. Moreover, additions to our manufacturing capacity were delayed many months due to shortages of construction materials and strikes in plants producing manufacturing equipment. The cost of these plant additions was greatly increased and, consequently, some building projects were suspended or postponed.

Raw material costs, manufacturing costs and selling and administrative expenses all increased sharply during the year, largely due to substantial advances in wage and salary rates not only for employes of the Company, but also for employes of all suppliers of goods and services. While permitting wages to rise, the Government maintained many wartime price controls throughout most of 19—. Because of rising costs on one hand and rigid price ceilings on the other, it was impossible for the Company to show satisfactory earnings during the first nine months of the year. However, due to the relaxation and eventual termination of price controls, profits in the fourth quarter were on a more normal basis in relation to volume of production and reflect the expansion of the Company's business in broader chemical fields. [*Atlas Powder Company*]

A best year

From every point of view 19— was Skelly Oil Company's best year to this time. Never before were the Company's operating departments so well integrated and uniformly profitable, or its asset position so strong. The Company faces the normal competition of peace time with confidence that it will steadily improve its substantial and respected position in the petroleum industry. This further progress is assured by the Company's ample oil and gas reserves, its well balanced integration, its vigilant emphasis on profitable specialty products, the tested soundness of its basic policies, and, finally, by the outstanding ability and zeal of the men and women who form its organization.

The Company intends to make sure that a profitable past and a bright future shall not cause any relaxation of effort to promote economy and efficiency in the Company's operations. That objective is held in constant view.

In the hundreds of communities in which it does business, the Company tries to be a good neighbor, taking part in movements toward civic betterment and encouraging reasonable participation by its employees in public affairs.

Stockholders and their friends who reside in or travel through the territory served by Skelly stations are invited to favor the Company with their patronage. [*Skelly Oil Company*]

Mutual understanding of responsibilities

We feel we have made progress. And we will be better prepared to meet the stiff competition a free market will inevitably bring if we constantly bear in mind that this test can be met successfully by the cooperation of all of us—stockholders, employees, management, and directors. A mutual understanding of the responsibilities and the rights of each group and an appreciation of the obligations we owe the public who are our consumers are the foundation on which the success of our Company, or any company, must be built. They are the foundation, too, of the well-being of that great community of us all which is our country.

Results are achieved through the individual as well as the joint efforts of all of us who make up our Company. Enthusiasm and diligence must be brought to the daily task. The awareness of this on the part of our employees has made possible our continued progress. [*National Sugar Refining Company*]

The Fiscal Year in Review

1945

JULY . . . 9 DC-3 aircraft in revenue service.

AUGUST . . . 9 DC-3 aircraft in revenue service. V-J Day. Delta awarded Chicago-Miami and Chicago-Charleston route.

SEPTEMBER . . . 10 DC-3 aircraft in revenue service.

OCTOBER . . . 11 DC-3 aircraft in revenue service. Air priorities abolished. Preliminary preparation for inauguration of service on new route award. 10% reduction of passenger fares. Purchase of first 2 DC-4's for conversion by Douglas Aircraft Company.

NOVEMBER . . . 11 DC-3 aircraft in revenue service. Purchase of one more DC-4 for conversion. Intensified preparation for inauguration of service on new route award.

DECEMBER . . . 12 DC-3 aircraft in revenue service. Inauguration of service between Chicago-Miami. Purchase of 3 more DC-4's for conversion. Payment of Christmas bonus to all employees.

1946

JANUARY . . . 13 DC-3 aircraft in revenue service. Purchase of one more DC-4 for conversion, completing Delta's fleet of 7. Establishment of 40-hour work week for all employees. Commencement of training of personnel for DC-4 operations. Reduction in Air Express rates.

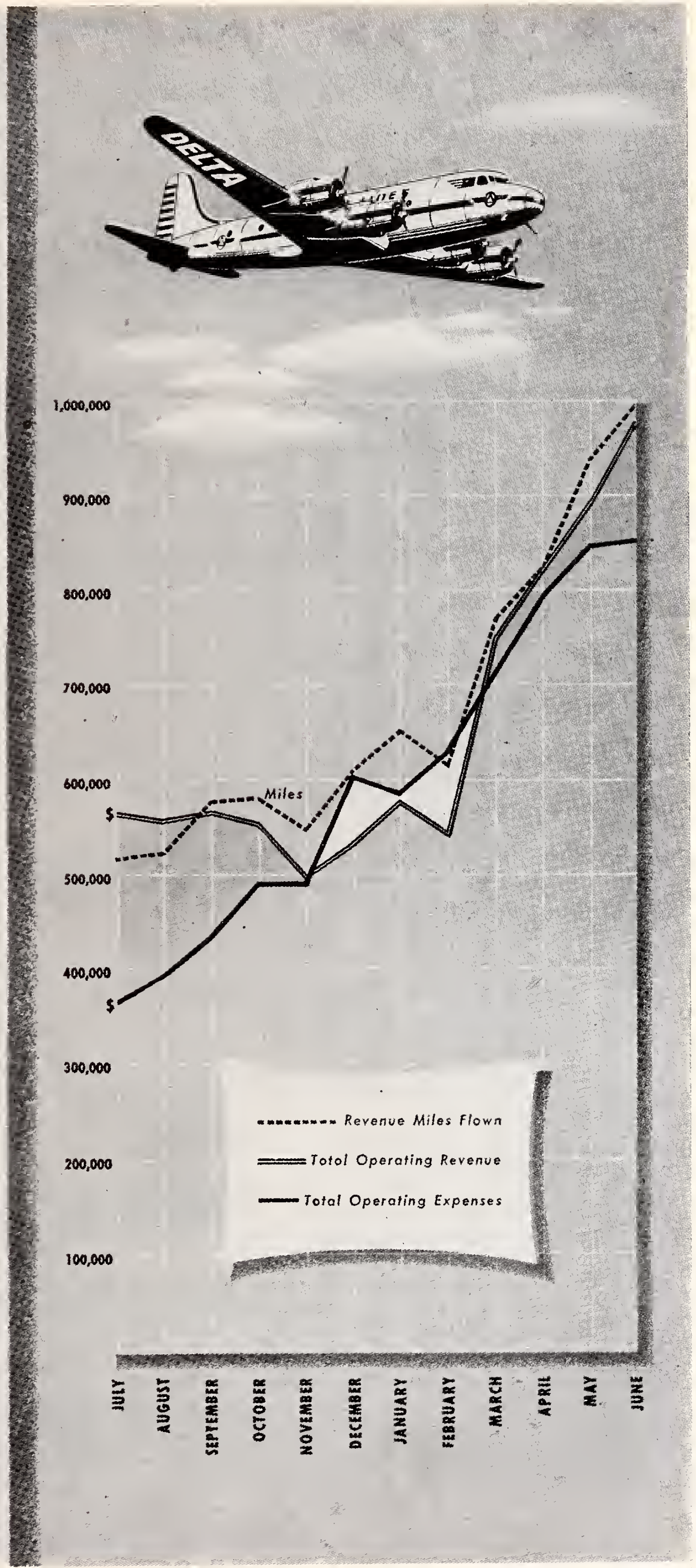
FEBRUARY . . . 14 DC-3 aircraft in revenue service. Receipt of first converted DC-4. Accelerated personnel training program for DC-4 operations.

MARCH . . . 15 DC-3 aircraft in revenue service. Inauguration of DC-4 service with 2 planes.

APRIL . . . 15 DC-3 aircraft and 4 DC-4 aircraft in revenue service. Inauguration of service between Chicago and Charleston via the Piedmont area. Beginning of establishment of maintenance base at Miami, Florida.

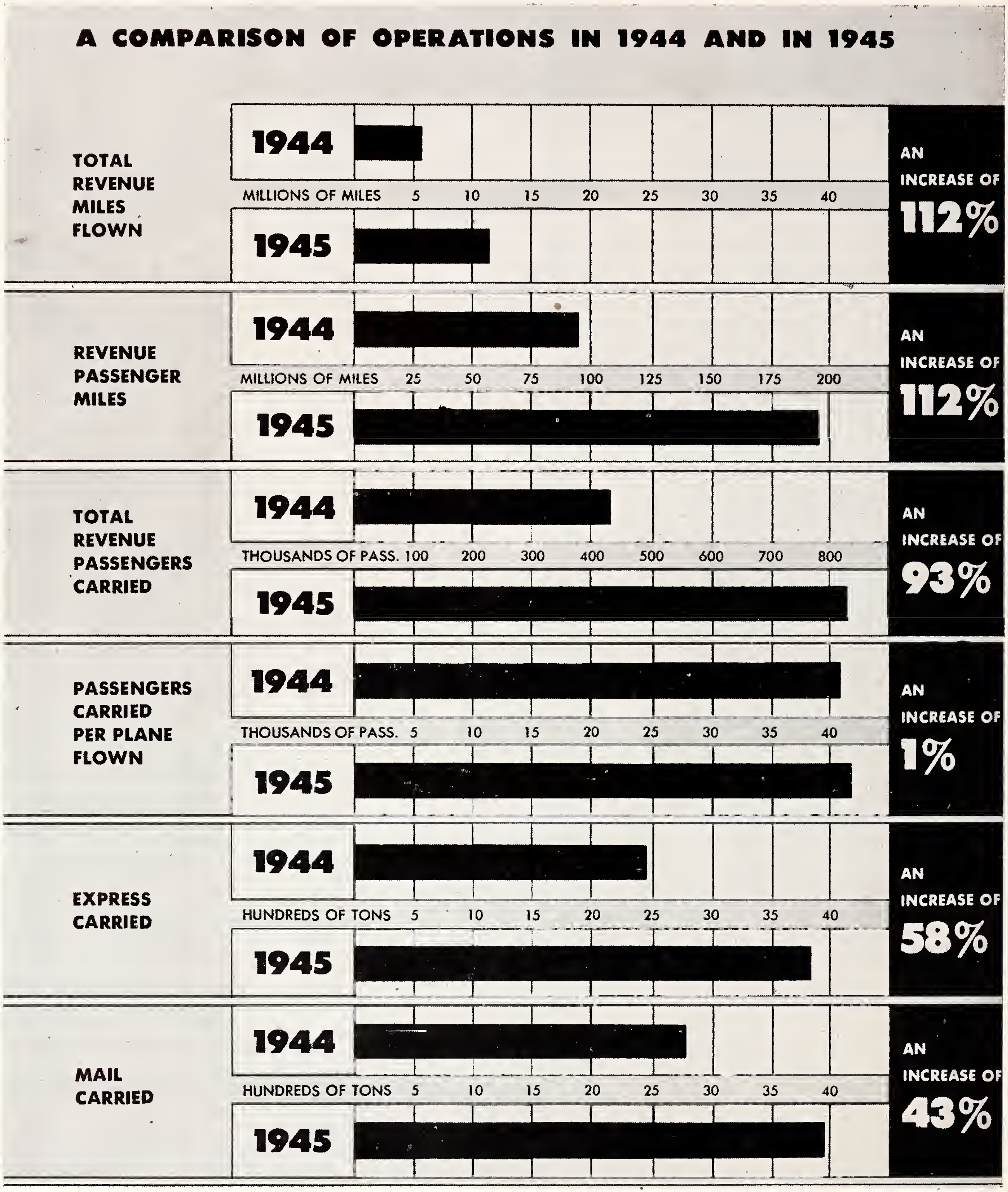
MAY . . . 15 DC-3 aircraft and 6 DC-4 aircraft in revenue service. Purchase of an additional DC-3 aircraft for conversion by Delta, completing the fleet of 16 planes. Completion of establishment of maintenance base at Miami, Florida.

JUNE . . . 15 DC-3 aircraft and 7 DC-4 aircraft in revenue service. Start of preparations for air freight service (began August 15, 1946).



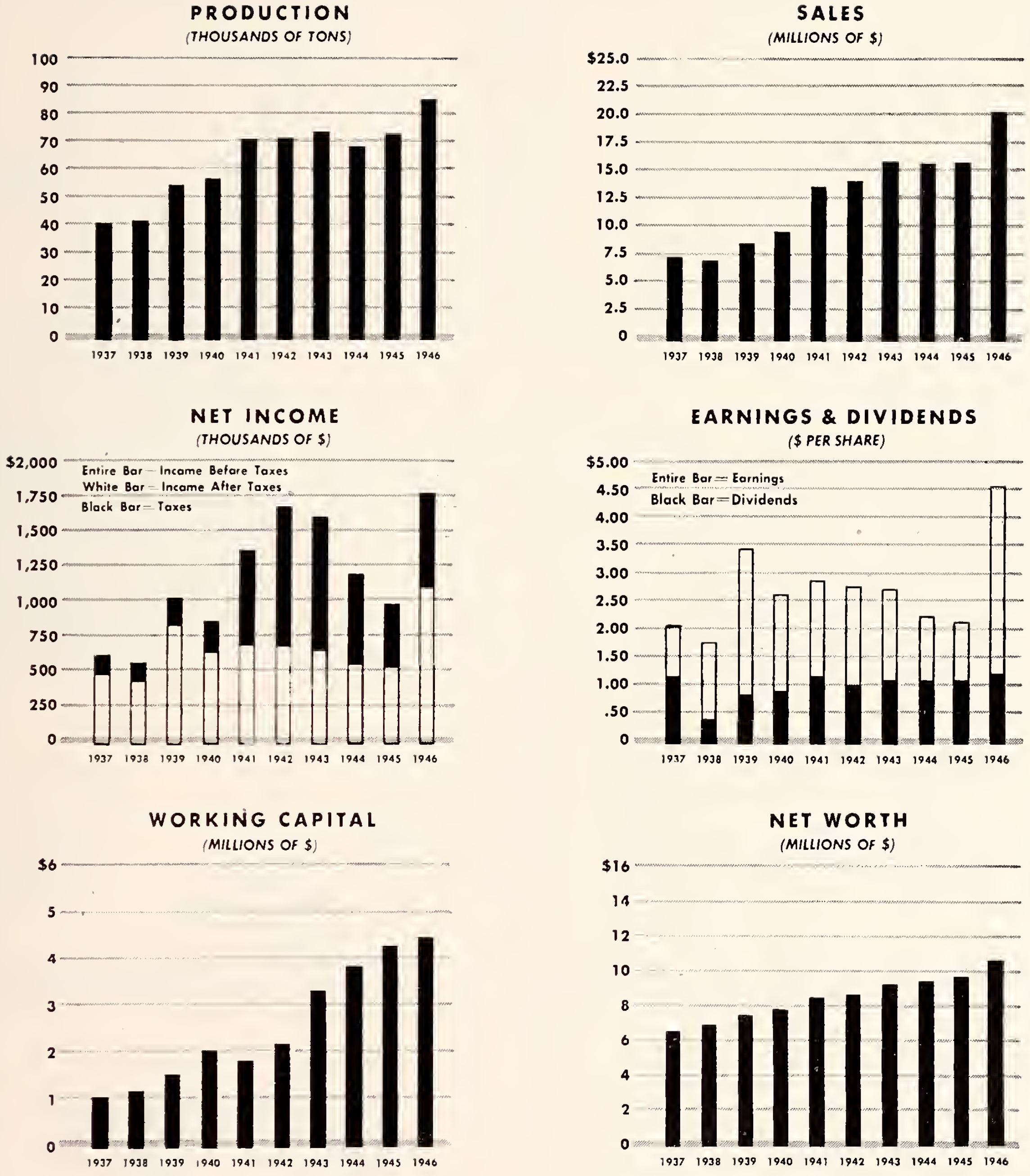
Courtesy, Delta Air Lines, Incorporated

Fig. 2



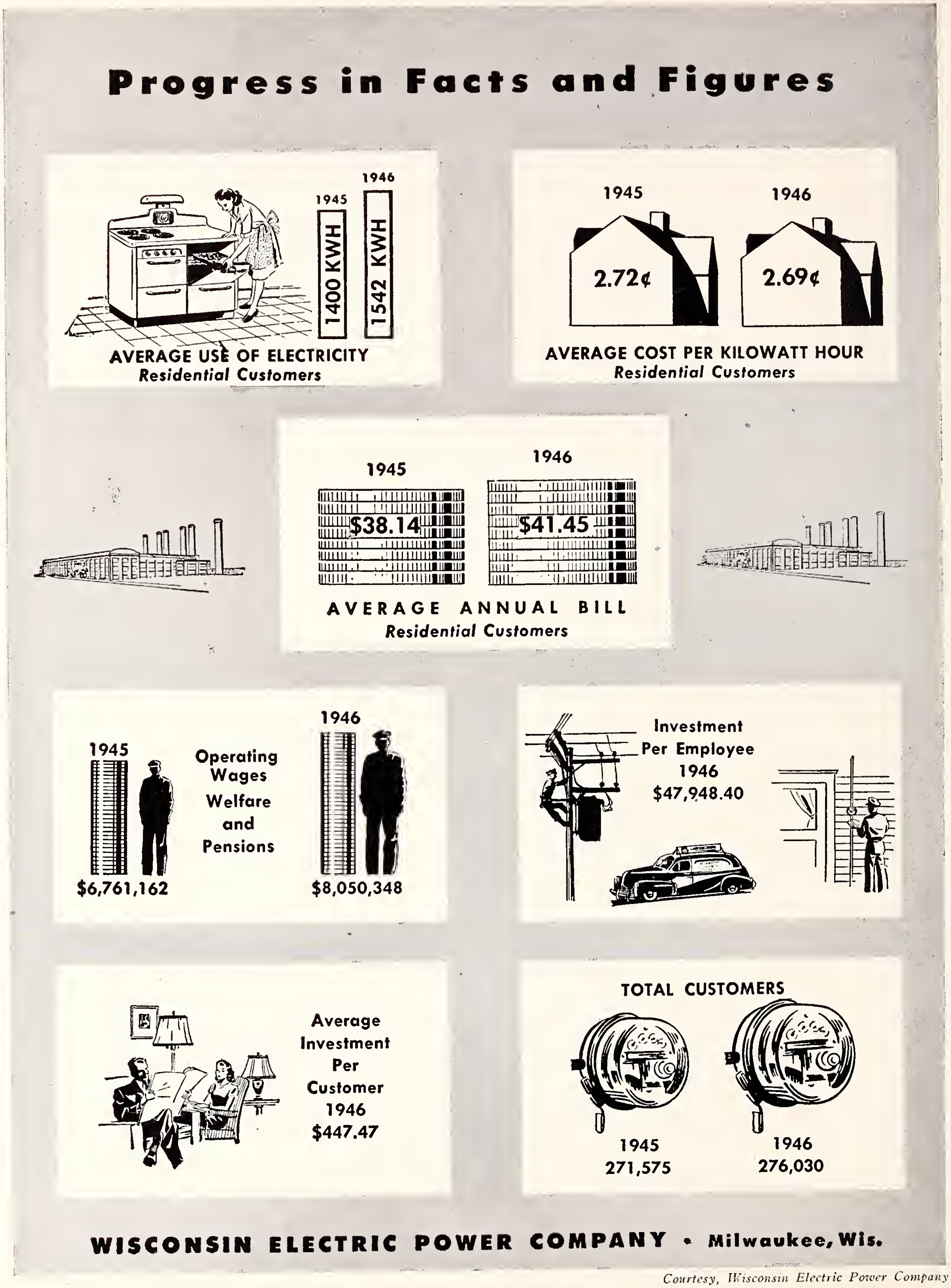
Courtesy, Pennsylvania-Central Airlines Corporation

Fig. 3



Courtesy, Riegel Paper Corporation

Fig. 4



Progress in Facts and Figures

1945
1400 KWH
1946
1542 KWH
AVERAGE USE OF ELECTRICITY
Residential Customers

1945
2.72¢
1946
2.69¢
AVERAGE COST PER KILOWATT HOUR
Residential Customers

1945
$38.14
1946
$41.45
AVERAGE ANNUAL BILL
Residential Customers

1945
$6,761,162
Operating Wages Welfare and Pensions
1946
$8,050,348

Investment Per Employee
1946
$47,948.40

Average Investment Per Customer
1946
$447.47

TOTAL CUSTOMERS
1945
271,575
1946
276,030

WISCONSIN ELECTRIC POWER COMPANY • Milwaukee, Wis.

Courtesy, Wisconsin Electric Power Company

Fig. 5

REPORTING ON PRODUCTION

Management might have in mind, while determining how to cover the subject of production, this basic thought: *How can we best show the respective contributions of capital, management and labor to production?* No adequate measure of each factor is available. Industrial experts and economists have struggled with the question—it is at the core of the problem of wages—and have arrived at no satisfactory answer. Management can, however, recognize such influences on production as waste, absenteeism, lack of effort and coöperation, poor planning by management, improved equipment, incentive plans, better training and the like. In the annual report, some of these factors are mentioned incidentally in the report on production, others are referred to in the section dealing with employment and wages, still others in the special message or statement of principles that management offers through the annual report.

CHECKLIST FOR COMMENTARY ON PRODUCTION

Volume of production compared with previous years.
Comments on what the production charts included in the report show.
Factors that affected production adversely:
  (a) Change in work-week.
  (b) Shortages of materials.
  (c) Strikes in suppliers' plants.
  (d) Strikes in company's plants.
  (e) Absenteeism.
  (f) Waste.
Factors that aided production:
  (a) Improvements in production methods and skills.
  (b) Additions to plant (covered separately under Plants and Equipment as well).
  (c) Acquisition of new companies (covered separately as well).
  (d) Installations of equipment to improve quality of product.
Comment on the industry in general.
Raw-material situation.
What proportion company's production is of total in country or world.
Special contracts that will affect production.
Products no longer produced.
Backlog of unfilled orders.

IDEAS FOR CHARTS AND GRAPHS

Charts of production are used to show growth in output over a period of years and to compare the volume of production with other pertinent data. The following facts can be clearly set forth in chart form:

1. Output over a period of years, by units of production.
2. Proportions of total production attributed to various products.
3. Comparison of trend of production with:
   (a) Sales volume.
   (b) Federal index of all production.
   (c) Total production in the industry.
   (d) Capacity.
   (e) Scheduled production.
4. Trend of productive man-hours over a period of years.
5. Unfilled orders at end of year compared with previous or best previous year.

See pages 51 et seq. for examples of production charts.

IDEAS FOR STATISTICAL DATA ON PRODUCTION

Comparative figures of yearly output of the company's products are presented to show the results of operations. Frequently, the total output for the industry as a whole is included, especially if the company's production represents an important part of the entire industry's production. Below are various tables of production and other statistical compilations relating to rate of operations.

PRODUCTION STATISTICS

Year	Dissolving Pulp Tons	Paper Grade Pulp Tons	Paper Tons

Assuming six twenty-four-hour days per week as constituting 100% operations, operating percentages of your Company for the past five years have been as follows:

19—	85.78%
19—	93.46%
19—	91.59%
19—	93.14%
19—	96.90%

PRODUCTION

	19— (net tons)	19— (net tons)
Ore		
Limestone		
Coal		
Coke		
Pig iron and ferro-manganese		
Open hearth, bessemer and electric steel		
Rolled steel and other finished products for sale		

RATE OF OPERATION

	Percentage of Steel (Ingots and Castings) Produced to Rated Annual Capacity	
	19—	19—
First quarter		
Second quarter		
Third quarter		
Fourth quarter		
Average		

PRODUCTION

Year	Carbon Black (Pounds)	Printing Ink Iron Oxides and other Pigments (Pounds)	Gasoline and Butane (Gallons)	Natural Gas (M Cu. Ft.)

CARS AND TRUCKS PRODUCED BY THE INDUSTRY—UNITED STATES AND CANADA

	Passenger Cars		Trucks		Total Cars & Trucks	
Year	Units	Percentage of 19—	Units	Percentage of 19—	Units	Percentage of 19—

EXCERPTS FROM COMMENTS ON PRODUCTION

The excerpts given in this section have been selected for two reasons: (1) They illustrate a frankness that builds confidence, (2) they show how problems of production are dealt with when management operates freely under a private-enterprise system.

Need for Increased Productivity

For the most part the problems faced by industry in 19— stemmed from a deep rooted misunderstanding of the basic relationship of wages and prices in our economy. In some quarters the belief was advanced that wages could be substantially increased without any increase in prices. The belief was put to test during the year.

The results sharply contradicted this thesis. Inevitably price increases followed wage increases.

Thoughtful men of management must regard the necessary price increases which have been forced upon them with deep concern. They know how price increases can strain customer relations and, beyond a certain point, cause an inevitable loss of markets. Only increased productivity per man hour can bring about lower prices in the face of higher wages.

The task of increasing productivity per man hour requires close cooperation between management and employees. AMF Management fully accepts its responsibility and will continue the program to improve the production facilities of the Company. We expect to invest more than $1,000,000 in 19— for this purpose. [*American Machine & Foundry Co.*]

Why production fell off

. . . It was, however, impossible to continue the war-time levels of supply of product chiefly because

—the use of subcontracting was greatly curtailed. The high cost of employing subcontractors was justified during the war under the urgency of military needs, but is prohibitive for supplying normal peacetime markets.

—the basic work week was reduced April 1, from 48 hours to 40 hours. Employees in Company factories and offices—as elsewhere throughout the nation —seemed insistently eager to change from a 48 hour to the 40 hour week now nationally accepted as standard; and even though some of the employees might have been willing to continue a 48 hour week, it appeared unwise to carry the overtime burden of the sixth weekly work day at a time-and-a-half pay rate.

—a substantial amount of production was lost during the strike at Peoria from January 29 to February 23.

—a two weeks shutdown of the plant for vacations, discontinued during the war, was again observed in August 19— in accordance with the vacation plan adopted by the Company in 19—.

—shortages of many materials and component parts of products continued throughout the year and seriously handicapped production programs.

—it was impossible to obtain enough qualified people to meet employment requirements, largely because of the housing shortage. [*Caterpillar Tractor Co.*]

Why a product was dropped

During the year, the publication of our Pocket Size Books was discontinued. During 19— and 19— when reading matter was in short supply due to the paper shortage, the company realized very substantial profits from this phase of its business. In 19—, however, with the freeing of paper, the market was flooded with this type of publication and sales became seriously affected. Rather than try to compete in a field so overcrowded, and risk further losses, it was decided to withdraw from this operation. [*Macfadden Publications, Inc.*]

The Troubles of a Newcomer

We doubt that any manufacturer will look back on 1946 as a smooth running year. All of us had troubles. It was the year of reconversion, and despite the fact that an eager consumer market awaited our output, we had to devote most of the year to *getting ready,* rather than to *turning out* finished products. We were not alone in facing the reconversion problems, nor in juggling production because of the lack of raw materials. We shared with other manufacturers the setbacks caused by shortages in basic industries. We had to mark time when we wanted to speed ahead at full steam.

We had the normal problems of a new business—developing a product, equipping a plant, and staffing a working organization. But some of our problems were abnormal. We were the newcomer. We found that because a condition of short supply existed for raw materials and tools, old customers were taken care of first in many instances. As the most recent arrival, we were sent to the end of the line.

During 1946 we moved toward the head of the line in these major tasks:

Tools and Parts

Without tools we couldn't start production, and at the beginning of 1946, we were competing with scores of other manufacturers for tools. The suppliers of machine tools and special tooling and the die makers were deluged with orders for new equipment. As new customers, we had to wait our turn. When the delay was too long, we didn't wait. Instead, we designed and built the equipment ourselves. In addition, the problem of finding suppliers to make the necessary parts for our cars was enormous. Most established suppliers in the automotive industry were overloaded with orders and short of raw materials. We had, therefore, to get the raw materials and keep a continuous supply flowing. We had to scour the country for new suppliers and, in numerous cases, had to finance the tooling of their plants for the production of items they had never built before. In addition, we had to finance tooling for established automotive suppliers in some cases. Many of our suppliers have come through with fine production records.

Steel

In a year when a steel shortage was hobbling the entire automobile industry, we as a newcomer, received only promises. Most of the major steel companies had steel for their prewar customers only.

While we were carrying forward our work to break a steel bottleneck which threatened to block any real start in production, we vigorously began experimentation in the use of aluminum for automobile bodies. This experimentation can be of great value to the company in future years, but when the steel problem was solved, work on aluminum was discontinued.

Through an investment of $2,000,000 in common stock of the newly organized Portsmouth Steel Corporation (plus a $1,000,000 investment by Graham-Paige Motors Corporation) Portsmouth agreed to furnish us sheet steel and other steel products.

We needed pig iron, too, so that our suppliers could provide us with gray iron castings. To get this pig iron, we leased a blast furnace at Struthers, Ohio, which is now providing our suppliers with pig iron.

Engines

Our engine story has been a grim one. Our contract with Continental Motors Corp. provided for the delivery of 42,000 engines during 1946. Instead, we received less than 12,000 engines. Toward the end of the year, the condition became acute because our production lines were gaining momentum. Yet we were continually short of engines. There were times when we had to close the plant, because we didn't have enough engines on hand to complete our cars. From the middle of December to the first of March, on no single day did we have a two-day supply of engines on hand. This condition prevailed in spite of persistent efforts on our part to assist our engine maker. Finally, in March, 1947, we leased from Continental a substantial portion of its Detroit plant, and started to turn out engines under our own management. We came through with 5,294 engines in March, an increase of 28% over the production of the same plant in February. In addition to the engines we manufacture in Detroit, Continental has agreed to schedule for delivery to us 4,500 per month from its Muskegon, Michigan plant. It hasn't met that quota yet. But we now have a supply of engines from our own operations in Detroit. An end to the manufacturing problems created by the engine shortage seems to be in sight.

Organization

We are proud of the fine organization, 9,000 workers strong, which has joined together in the job of producing Kaiser and Frazer automobiles. Many of these people were newcomers to the industry and also were starting from scratch in automobile making. The past year has been marked by many difficulties for them. When men and women came to work without knowing whether there would be enough engines on hand to keep them on the job for a full day, it was dampening to the spirit. But the people of Kaiser-Frazer have retained their faith in the company and are working more and more efficiently each day.

A satisfactory interim agreement has been concluded with the U.A.W.-C.I.O. under which operations are to continue pending negotiations on a new contract for the year 1947.

In order to assist a portion of our employees in securing desperately needed housing, we invested $346,000 in the Westwillow Village housing project adjacent to our factory.

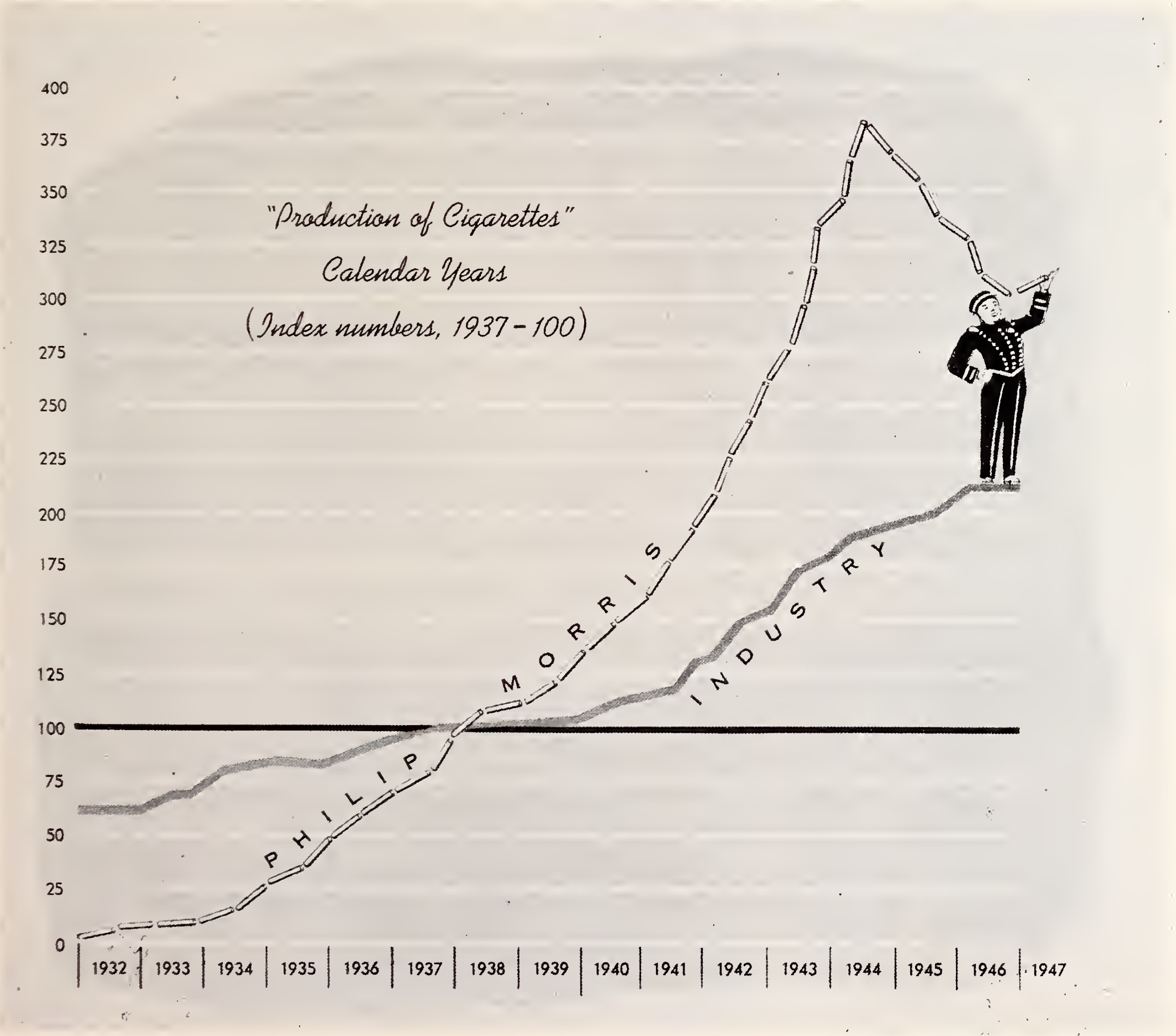
In addition to our fine Willow Run organization, we have built an aggressive sales organization with 136 distributors and 3900 dealers. We are represented in 150 foreign sales areas. We have in our sales organization a group of men who are not only prepared for the immediate selling job ahead, but who are geared to dig in and fight for our share of business when selling gets tough. The distributors and dealers have demonstrated their confidence in Kaiser-Frazer by making substantial investments in showrooms and service facilities. This dealer organization should prove to be one of our greatest assets in years to come.

Money

Getting into the automobile business takes a lot of money. Before volume production could be achieved, we had to invest more than $20,000,000 in plant, machinery, special tools and equipment. To get steel we needed, we had to put $2,000,000 into Portsmouth Steel Corporation.

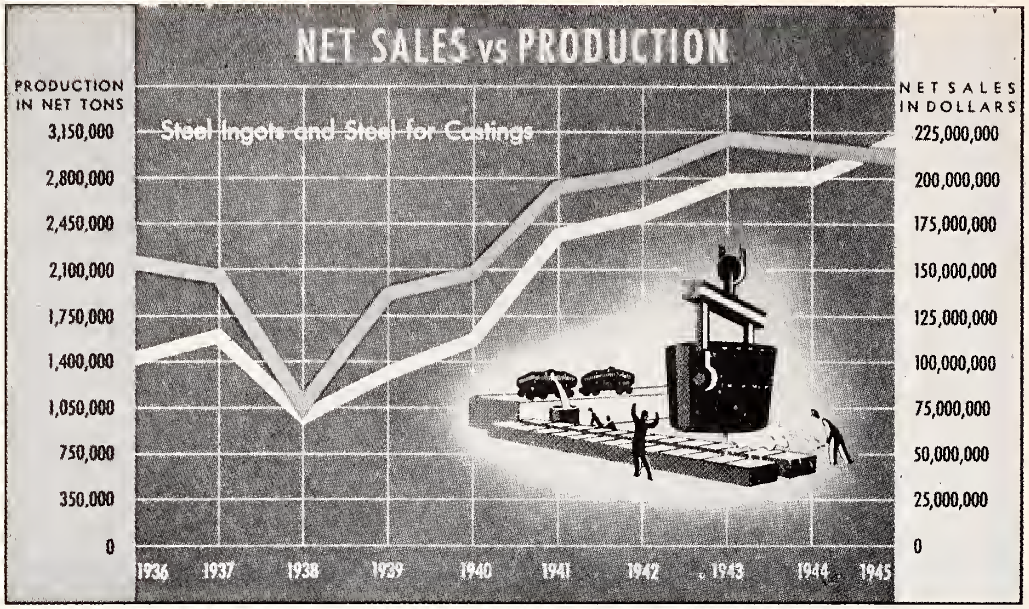
Our original plan of operating the Willow Run plant jointly with Graham-Paige Motors Corporation was altered when it became apparent that they would be unable to continue to contribute their one-third toward additional capital expenditures. This condition imposed an added financial load on us. However, the problems of joint operation were such that economies could be effected if both companies' production and sales were concentrated. Accordingly, we acquired the automotive assets of the Graham-Paige Motors Corporation in a transaction which involved, among other things, the issuance of 750,000 shares of our common stock to Graham-Paige.

Because we were delayed in achieving volume production, we were forced to tie up large sums of money in inventories and found that we needed additional working capital. To get it, we arranged a loan of $12,000,000 from the Bank of America, N.T. and S.A., of San Francisco, pledging certain of our assets, including special tools, jigs, dies, and fixtures. The loan has been guaranteed by Kaiser interests and by Mr. Frazer. This pledge of personal resources speaks for itself of the faith which the chief officers of Kaiser-Frazer Corporation have in the future of your company. [*Kaiser-Frazer Corporation*]



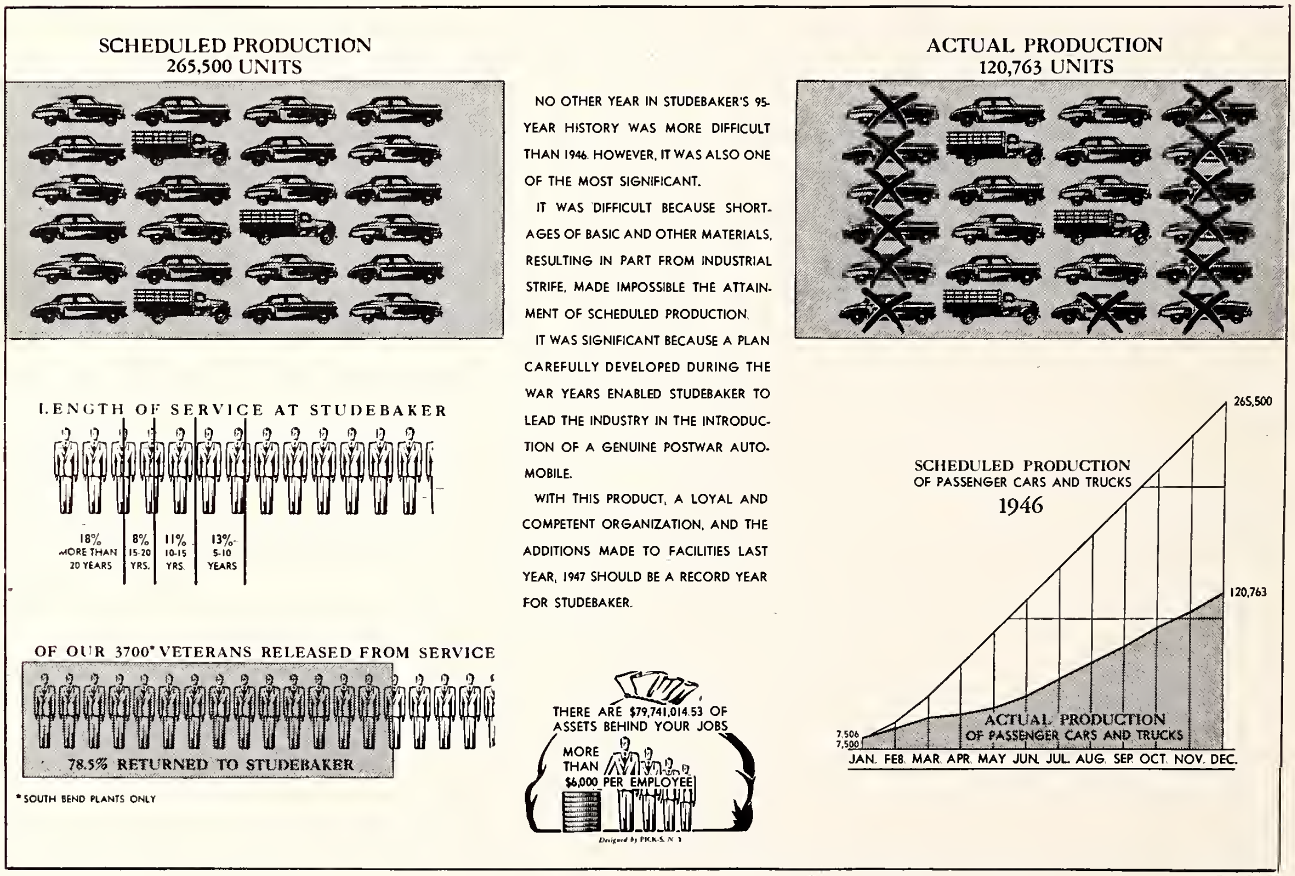
Courtesy, Philip Morris & Co. Ltd., Inc.

Fig. 6



Courtesy, The American Rolling Mill Company

Fig. 7



NO OTHER YEAR IN STUDEBAKER'S 95-YEAR HISTORY WAS MORE DIFFICULT THAN 1946. HOWEVER, IT WAS ALSO ONE OF THE MOST SIGNIFICANT.

IT WAS DIFFICULT BECAUSE SHORTAGES OF BASIC AND OTHER MATERIALS, RESULTING IN PART FROM INDUSTRIAL STRIFE, MADE IMPOSSIBLE THE ATTAINMENT OF SCHEDULED PRODUCTION.

IT WAS SIGNIFICANT BECAUSE A PLAN CAREFULLY DEVELOPED DURING THE WAR YEARS ENABLED STUDEBAKER TO LEAD THE INDUSTRY IN THE INTRODUCTION OF A GENUINE POSTWAR AUTOMOBILE.

WITH THIS PRODUCT, A LOYAL AND COMPETENT ORGANIZATION, AND THE ADDITIONS MADE TO FACILITIES LAST YEAR, 1947 SHOULD BE A RECORD YEAR FOR STUDEBAKER.

Courtesy, The Studebaker Corporation; Graphic by Pick-S, N. Y.

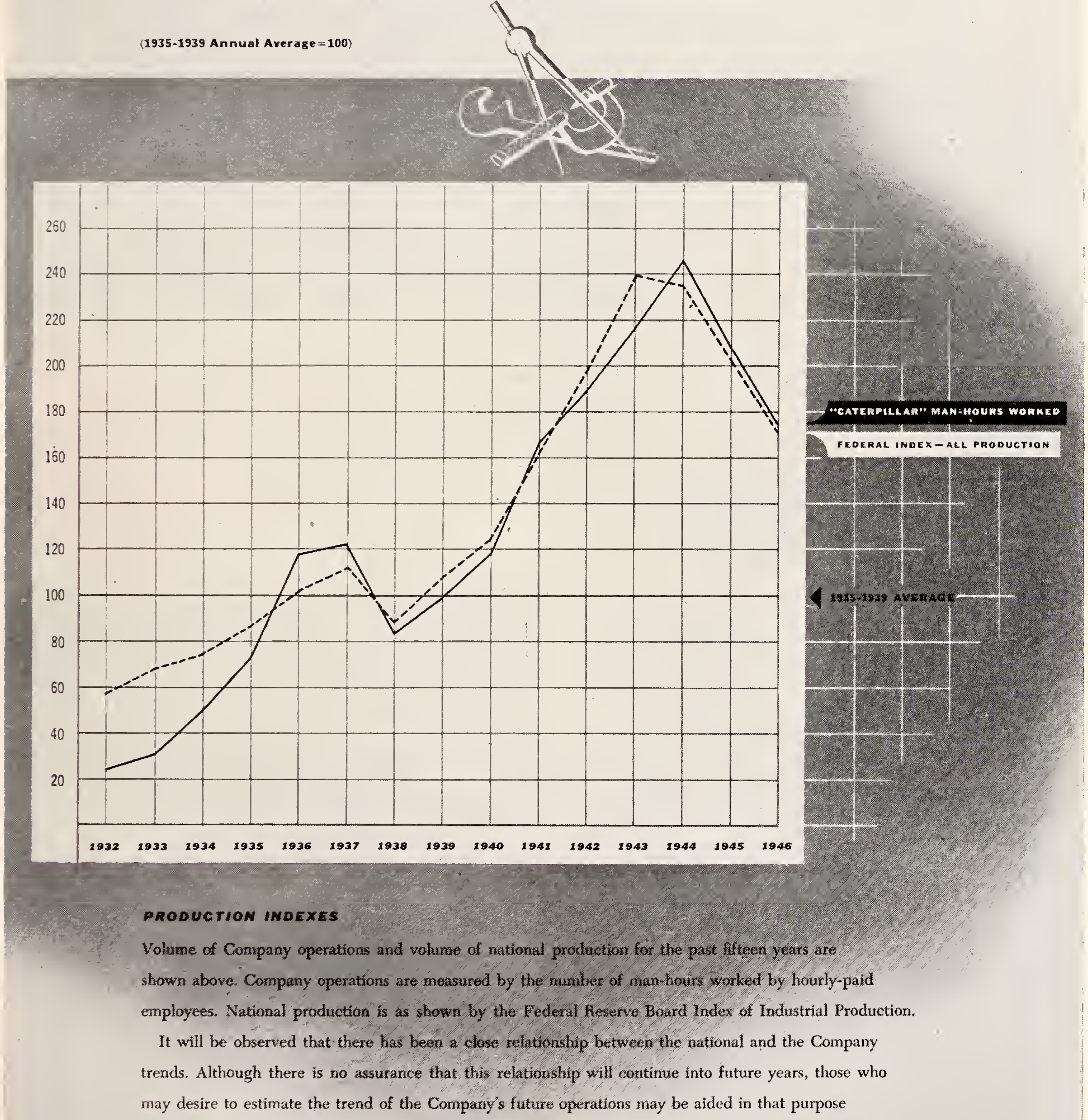
Fig. 8

"CATERPILLAR" INDEX OF MAN-HOURS WORKED *(Hourly payroll)*

and

FEDERAL RESERVE BOARD INDEX OF ALL INDUSTRIAL PRODUCTION.

(1935-1939 Annual Average=100)



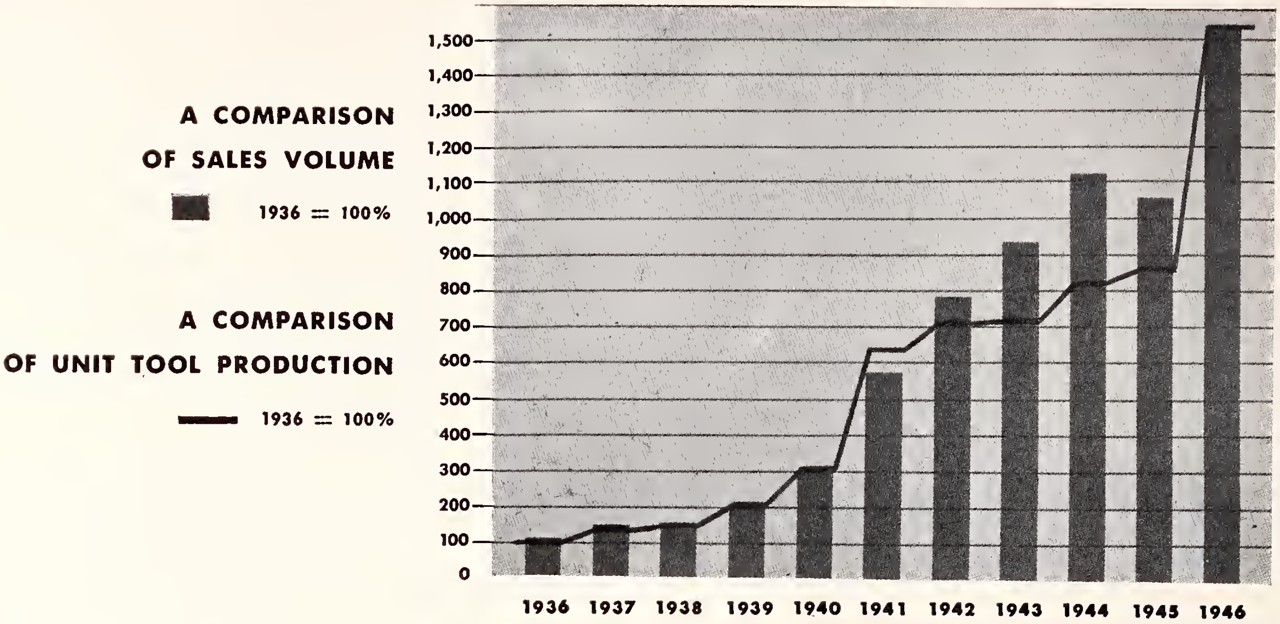
PRODUCTION INDEXES

Volume of Company operations and volume of national production for the past fifteen years are shown above. Company operations are measured by the number of man-hours worked by hourly-paid employees. National production is as shown by the Federal Reserve Board Index of Industrial Production.

It will be observed that there has been a close relationship between the national and the Company trends. Although there is no assurance that this relationship will continue into future years, those who may desire to estimate the trend of the Company's future operations may be aided in that purpose by watching the trend of the Federal Reserve Board Index, as periodically forecast by leading economists.

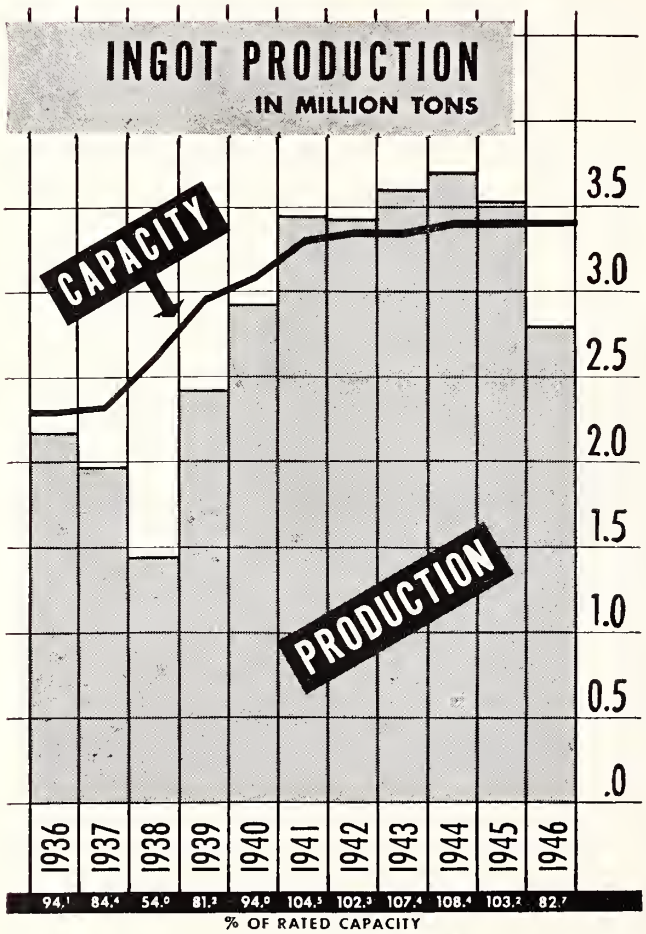
Courtesy, Caterpillar Tractor Co.

Fig. 9



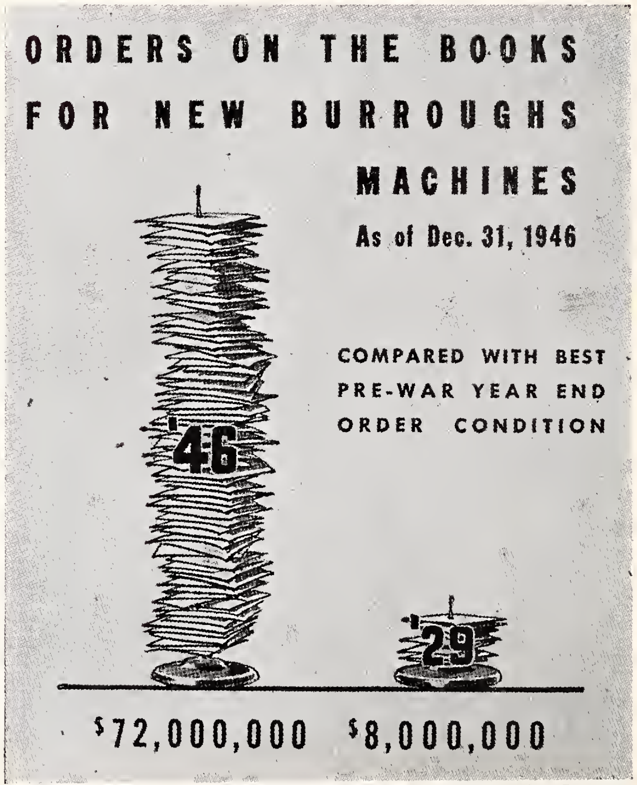
Courtesy, Skilsaw, Inc.

Fig. 10



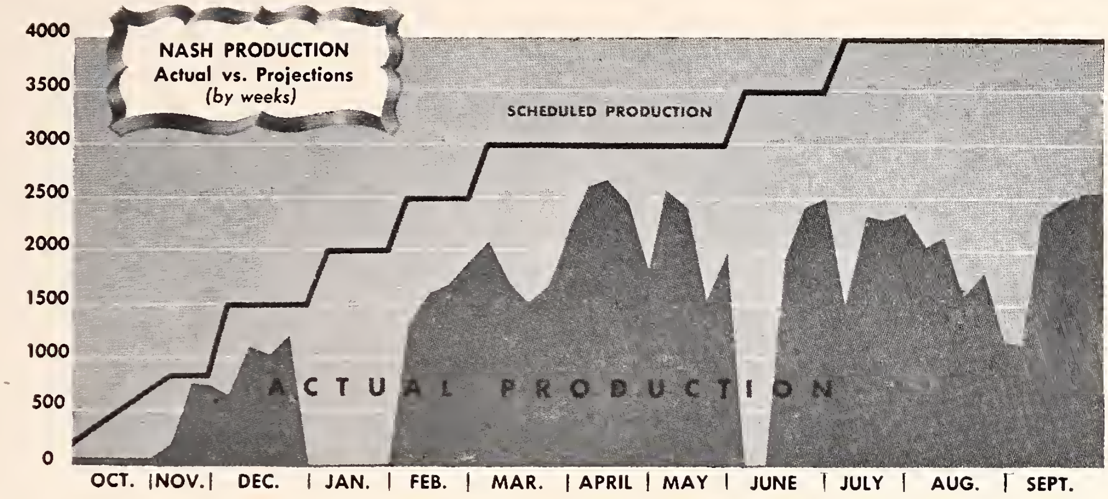
Courtesy, Inlond Steel Company

Fig. 11


ORDERS ON THE BOOKS
FOR NEW BURROUGHS
MACHINES
As of Dec. 31, 1946
COMPARED WITH BEST
PRE-WAR YEAR END
ORDER CONDITION
'46
'29
$72,000,000
$8,000,000

Courtesy, Burroughs Adding Mochine Compony

Fig. 12

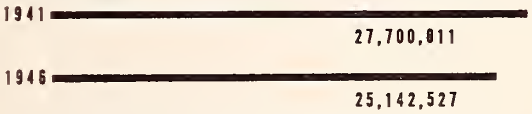


Courtesy, Nash-Kelvinator Corporation

Fig. 13

PACKARD PREPARED FOR HEAVY CAR DEMAND

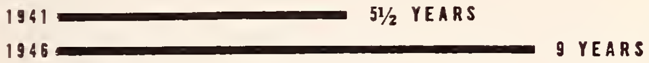
U. S. CAR REGISTRATIONS *(all makes)*



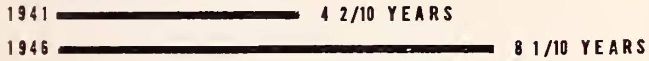
Increased service parts production has kept thousands of over-age cars from the scrap pile as indicated here. They are badly in need of replacement.

AGE OF CARS IN SERVICE

Industry:

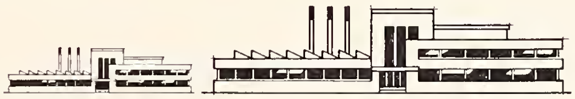


Packard:



The urgent need for new cars is graphically illustrated here. Comparative figures on Packard reflect the rising volume of Packard production in recent years.

PACKARD POTENTIAL CAPACITY

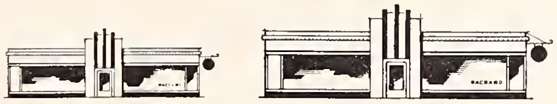


PREWAR:
100,000 CARS PER YEAR

POSTWAR:
200,000 CARS PER YEAR

In its postwar planning, Packard mapped a program for doubling its best prewar volume, with potential production capacity increased to 200,000 cars per year.

PACKARD DEALER ORGANIZATION



1941:
1,578 DEALERS

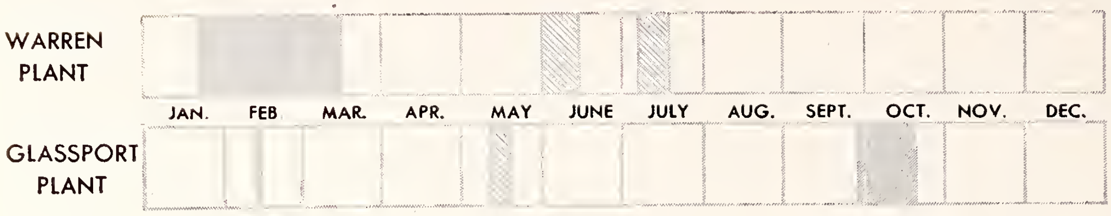
1946:
2,055 DEALERS

The Packard dealer organization today is the finest and strongest in Packard history, capable of merchandising the increased car production volume of future years.

Courtesy, Packard Motor Car Company

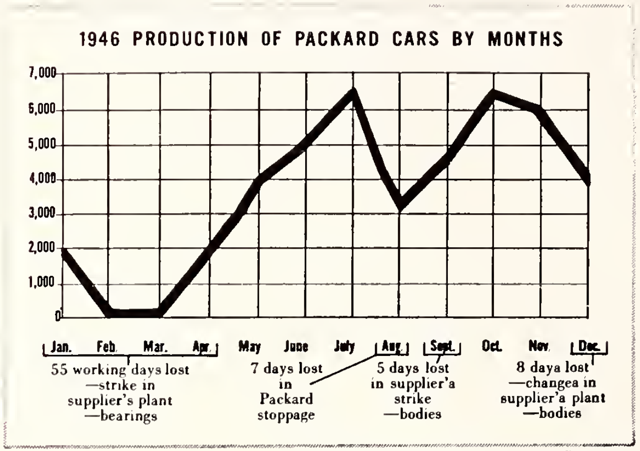
Fig. 14

SHUT DOWNS, COMPLETE AND PARTIAL, DURING 1946



Courtesy, Copperweld Steel Company

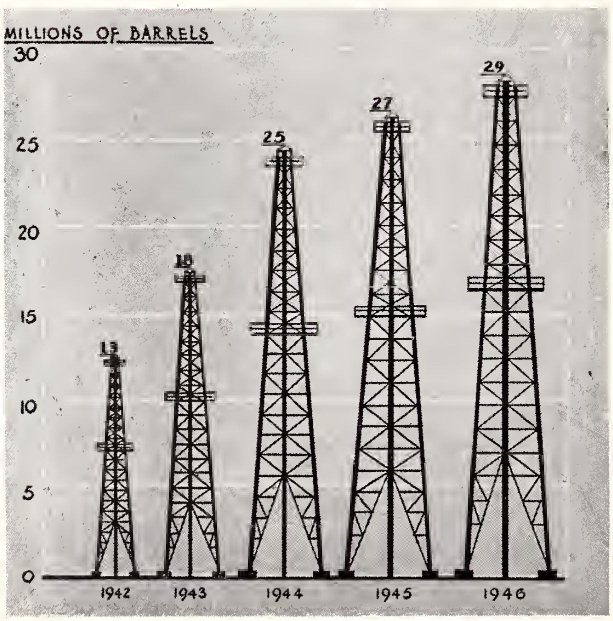
Fig. 15



Courtesy, Packard Motor Car Company

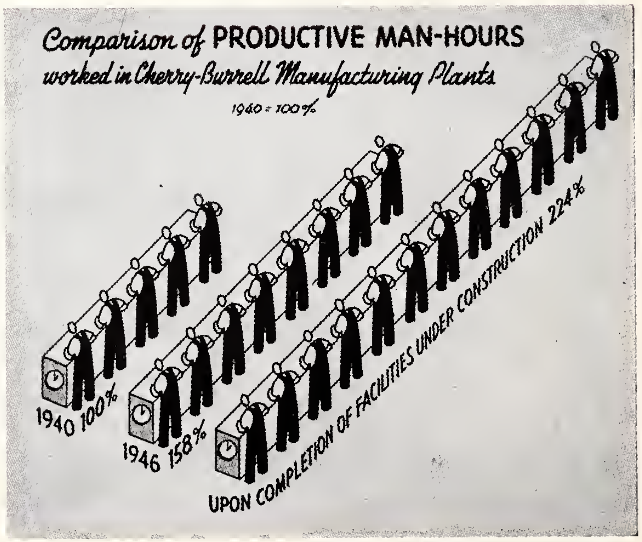
Fig. 16

Net Crude Oil Production



Courtesy, Sun Oil Company

Fig. 17



Courtesy, Cherry-Burrell Corporation

Fig. 18

REPORTING ON VOLUME OF BUSINESS—SALES

The sales story, as it should be told in the annual report, has two angles: (1) Volume of business, (2) "what happened to the sales dollar." The second aspect is quite as important as the first, for by calling attention to the sharing of the sales dollar, management can try to correct such public misconceptions as: A large volume of business means big profits or, owners and managers get the greatest amount of benefits from an increased volume of business.

This chapter deals only with the first part of the sales story. The second part is covered in Chapter 7.

CHECKLIST FOR COMMENTARY ON VOLUME OF BUSINESS AND SALES

Total volume compared with previous year.
What the sales figure represents.
Comments on what the sales charts included in the report show.
Factors that influenced growth or shrinkage.
  (a) Prices.
  (b) Marketing methods.
  (c) Sale promotion.
  (d) New products.
  (e) Products dropped.
  (f) Competition.
How various products fared (sometimes covered separately where report is made on each division of the business).
What happened in industries that buy the company's products or use its services.
See also checklist for reporting on marketing, page 167.

IDEAS FOR CHARTS AND GRAPHS

Practically every report that makes use of charts and graphs includes some type of chart to reflect volume of business. The most common facts charted are:

1. Gross sales in dollars for a period of years.
2. Net sales in dollars for a period of years.
3. Average sales per month for a period of years.
4. Revenues from operations for a period of years.
5. What each operating division contributed to the total sales for a period of years or in a particular year.
6. Trend of company's volume of business compared with:
   (a) Business activity for the country as a whole.
   (b) Production in related industry.
   (c) Production for the country as a whole.
   (d) Business done by the industry as a whole.
   (e) Company's capacity.
7. Per cent that orders received each year represent out of available business in the industry.
8. Completed contracts compared with bookings for a period of years.
9. Number of units sold for a period of years.
10. Volume of sales in dollars compared with volume in units for a period of years.
11. Tonnage shipped for a period of years.
12. Growth in number of customers.
13. Net gain in instruments (such as telephones) that measure volume.
14. Route-miles in service and flight-miles operated.
15. Passenger-miles flown and passengers carried.
16. Peak demands.
17. Relation of sales to:
   (a) Net fixed assets.
   (b) Inventories.
   (c) Capital invested.
   (d) Profits.
18. Net sales price per unit of product real-

ized during year compared with other years.

19. Trend of prices of company's product compared with:
    (a) Trend of general price level for all manufactured goods.
    (b) Wholesale prices.
    (c) Retail prices.
    (d) Cost-of-living index.
    (e) Price of principal raw material entering into product.
20. Loss of revenue, and recovery.

See pages 62-70 for examples of sales charts. See also charts at pages 62 et seq. for other graphic presentations of sources of income in a particular year.

IDEAS FOR STATISTICAL DATA

Statistical data relating to sales may reveal such facts as the following:

1. The trend of the business.
2. Class of product or service that made the best progress during the year.
3. Position of departments and divisions in volume of business.
4. Progress of a particular branch of a business.
5. Industries that use the company's products.
6. Fluctuations to which sales are subject.
7. Seasonal variations, if quarterly figures over a period of years are given.
8. Total sales for year compared with competitors' totals (adaptable by outstanding producer in field).

Various statistical tables are outlined below to show typical set-ups.

One of the most popular statistical presentations is a table of sales, earnings and dividends for a period of years. For examples of such table headings, see pages 116 et seq.

The following table gives a comparison of 19— and 19— sales:

	19—	Per Cent of Total	19—	Per Cent of Total
Sales of Regular Products in the United States:				
Motor trucks, service and service parts	$		$	
Farm implements and service parts				
Farm tractors and service parts				
Industrial equipment and service parts				
Steel, pig iron, and coke by-products				
Binder and baler twine				
Refrigeration equipment				
Miscellaneous				
Total	$		$	

SALES BY THE INDUSTRY TO CONSUMERS IN THE UNITED STATES

	Passenger Cars		Trucks		Total Cars & Trucks	
Year	Units	Percentage of 19—	Units	Percentage of 19—	Units	Percentage of 19—

Since 19— this branch of the business has never failed to register an annual increase. The following is the record for the past five years:

Year	M Cu. Ft.	Revenue	Average Price (Cents per M Cu. Ft.)

	Sales		Crude Oil Processed at Refineries
Year	Barrels	Amount	Barrels

OPERATION AND TRAFFIC STATISTICS

The continued growth of your Company is evidenced in the following statistical tables:

				Percent Increase	
	19—	19—	19—	19— over 19—	19— over 19—
Mail pounds carried					
Mail pound miles flown (1,000)					
Total mail revenue	$	$	$		
Number of revenue passengers carried					
Revenue passenger miles flown					
Total passenger revenue	$	$	$		
Air express pounds carried					
Total air express revenue	$	$	$		
Total revenue miles flown					

		December		Percent Increase	
	19—	19—	19—	19— over 19—	19— over 19—
Daily scheduled miles flown with passengers					
Number of daily scheduled flights with passengers					
Number of passenger airplanes in service					
Average seating capacity per plane					
Post Office Department authorized route mileage					
Number of employees					

ELECTRIC AND GAS STATISTICS

Kilowatt-hour sales of electricity for residential, commercial, industrial power, and other purposes for the past ten years were as follows:

Year	Residential Sales	Commercial Sales	Industrial Power Sales	Other Sales	Total Sales

The following is a comparison for the past ten years of the number of electric residential customers, the average annual residential kilowatt-hour consumption per customer, the average annual residential bill, and the average rate paid per kilowatt-hour for electric residential service:

Year	Number of Residential Customers December 31	Average Annual Residential Kilowatt-hour Consumption Per Customer	Average Annual Residential Bill	Average Residential Rate Paid Per Kilowatt-hour Cents

Cubic feet sales of gas for residential, commercial, industrial and other purposes for the past ten years were as follows:

Year	Residential Sales	Commercial Sales	Industrial Sales	Other Sales	Total Sales

KILOWATT HOURS OF ELECTRICITY SOLD

Class of Service	Year 19—	Year 19—	Increase
Residential and rural			
Commercial and industrial:			
Large power and light			
Small power and light			
Sales to public authorities			
Electric railroads			
Other electric utilities			
Total			

SALES OF ELECTRICITY, GAS AND STEAM

Year	Sales of Electricity, Kilowatt-Hours	Sales of Gas, Cubic Feet	Sales of Steam, Pounds

DIVISION AND COMPARISON OF 19— REVENUES

Classification	Revenue		Increase in 19—		% of 19— Electric Revenues Produced by Each Classification
	19—	19—	Amount	%	
Residential	$	$	$		
Commercial—retail					
Commercial—wholesale					
Railroads and street railways					
Street lighting					
Other electric utilities					
Total	$	$	$		
Miscellaneous operating revenue					
Total operating revenues	$	$	$		
Non-operating revenues					
Total	$	$	$		

Largest consuming industries in 19—, listed in order of the dollar volume of sales to them, compared with the order in 19—.

Industry	Relative Importance 19—	Relative Importance 19—

POSITIONS OF DEPARTMENTS AND DIVISIONS IN VOLUME OF BUSINESS

The manufacturing and sales activities are conducted through eleven departments or divisions. Their respective positions from the standpoint of dollar business in the years 19— and 19— are as follows:

	19—	19—
Department		

EXCERPTS FROM COMMENTS ON VOLUME OF BUSINESS AND PRICES

The narrative report on sales usually deals with the volume of sales and the reasons for any decrease. The close relationship of prices to dollar value of sales offers an opportunity for comment on the pricing policy of the company or on the trend of prices in the industry. The excerpts given below show some unusually interesting comments on the subjects treated in this section.

Lower Prices Benefit All

The policy of General Motors and of the automobile industry generally has always been one of vigorous competition and aggressive application of technical improvements, with the result that prices have been reduced or quality improved or both. The war and its aftermath have temporarily interrupted this trend.

If more and better things are to be made available to more people, an important share of the benefits coming from improved methods and technical advancements must be passed along to customers. Greater values must be provided for the same money or the same values for less money. Workers and stockholders are also customers and therefore benefit from these greater values. When prices are reduced, the benefits of industrial efficiency are made available to all. Higher levels of production can be established and all can have more.

Increases in productivity which make lower prices or improved values possible do not come automatically. In the main they result from improved tools, new processes and new inventions, and these come about because someone is willing to put up money for their development. Such technological progress is slow, but the long-term results are highly important. General Motors over the years has built up a substantial investment in plant and equipment and is currently expanding and importantly improving its facilities. Part of the funds being used come from profits already earned, and part represent capital furnished by investors.

That this investment should be profitable is important not only to investors but to consumers and workers as well. The incentive in our business system is the hope of profit. If reasonable profits are not generally realized, investment ceases and progress stops. The realization of profit provides a continuing incentive to save and invest. That makes possible the growth of business with more and better opportunities for workers and improved values for consumers. [*General Motors Corporation*]

Efforts to keep established price of product

There are many indications that the public's response to the maintenance of quality throughout the period of restrictions and the effort on the part of the bottlers of Coca-Cola generally to prevent an increase in the historic 5¢ consumer price at retail outlets will have most satisfying and encouraging results in the post-war market. [*Coca-Cola Company*]

PRICES

There is a close relationship between the selling price of our products and the development of our full potential market. Our prices must be low enough to permit us to compete successfully with manufacturers of competitive materials. We always have endeavored, therefore, to hold down the prices of our products, but we were unsuccessful in holding the price lines in 19—.

A general increase in all steel prices was granted by the OPA in February, 19—. Coupled with the economies of large-volume production, this permitted us to absorb wage increases and the substantial and continuous rises in the prices of supplies and services throughout most of the year.

In November and December of 19— there occurred a very sharp increase in the price of raw materials, particularly scrap. Although this latest rise has been partially offset by a "rounding out" of selling prices, the full effect of these higher raw materials costs has not yet become apparent. [*Allegheny Ludlum Steel Corporation*]

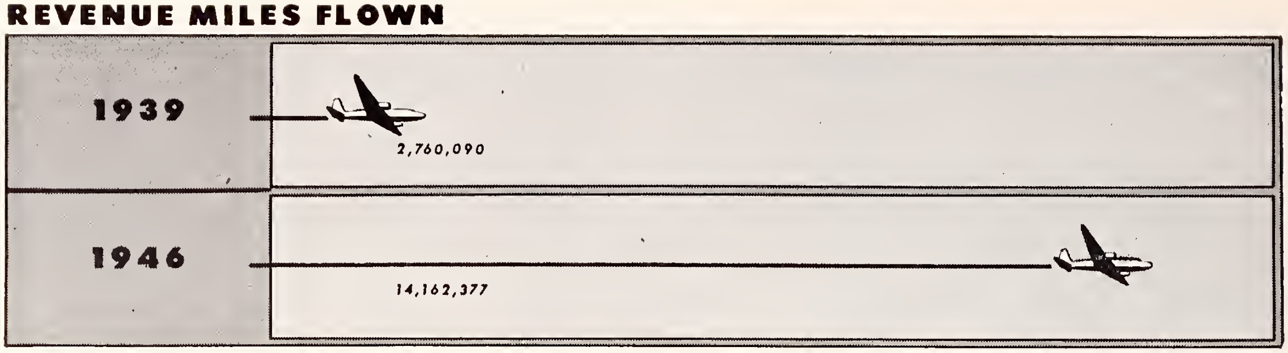
ADVANTAGES OF DIVERSIFICATION

Results for our fiscal year demonstrated, as never before, the benefits of diversified activities. Having our eggs, figuratively, in many baskets enabled us to realize good results.

In a belief that Shareholders will be interested in our associated and affiliated activities, which have meant so much to us, they are described in some detail elsewhere in this report. [*Armour and Company*]

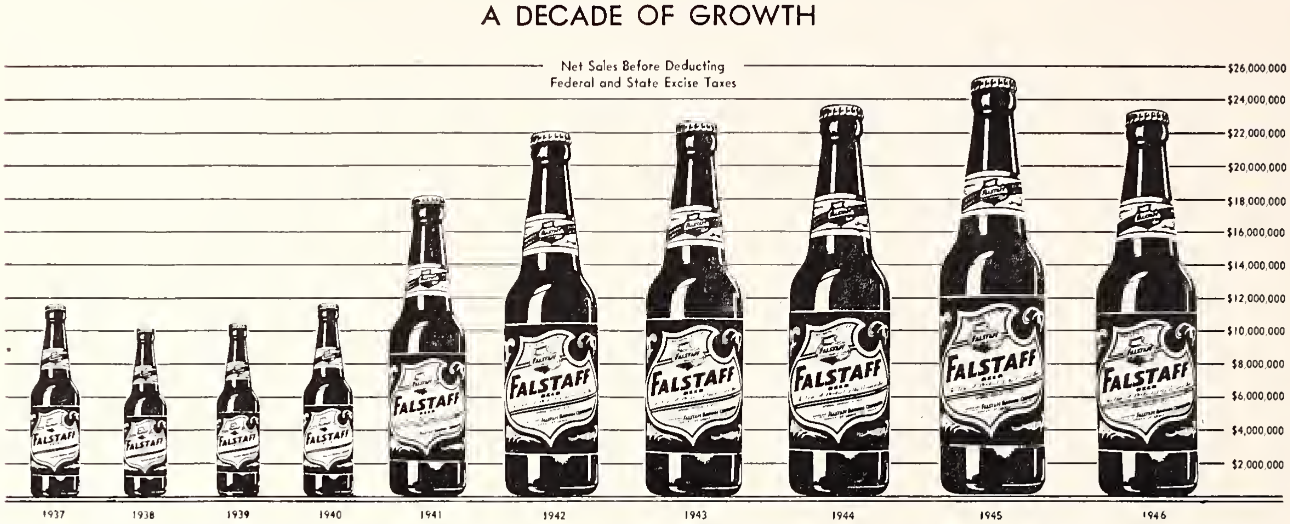
CAPITAL TURNOVER

Return on invested capital, the true index of financial success, is the result of the interplay of sales, costs, and invested capital. The relationship between selling prices and costs is generally pretty well stabilized, and for the year 19— the margin, after all deductions except Federal taxes, between these two factors was approximately —% of sales. Because Allegheny Ludlum sales were 3½ times its invested capital, however, *this seemingly small margin resulted in earnings before taxes that were —% of invested capital.* This ratio of sales to capital invested, known as capital turnover, is fully as important in determining return on investment as is low cost, a fact which is frequently overlooked. Allegheny Ludlum, while striving always for low costs, continues to seek simultaneously the maximum possible rate of capital turnover. This objective is maintained by finding ways of reducing investment in inventories, without adversely affecting service to customers, and by approving only those modernization proposals as will provide, through cost savings, a return on the new investment commensurate with that being earned currently by the company. [*Allegheny Ludlum Steel Corporation*]



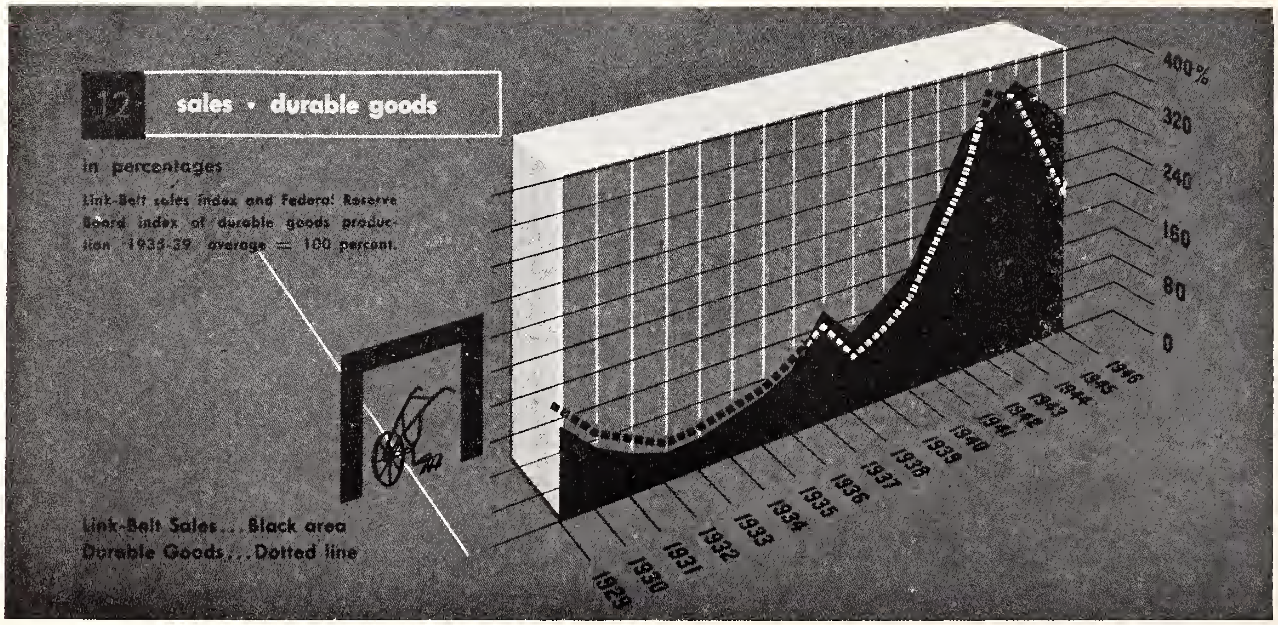
Courtesy, Trans-Canada Air Lines

Fig. 19



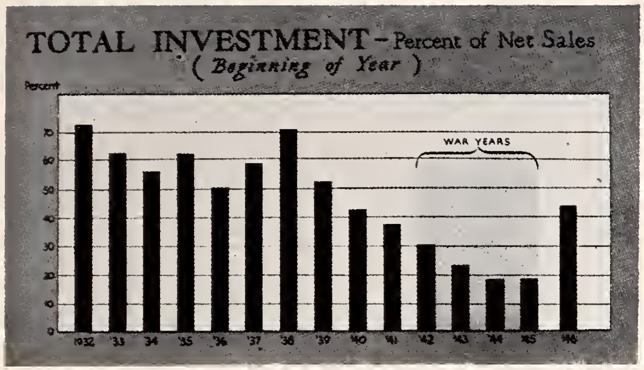
Courtesy, Falstaff Brewing Corporation

Fig. 20



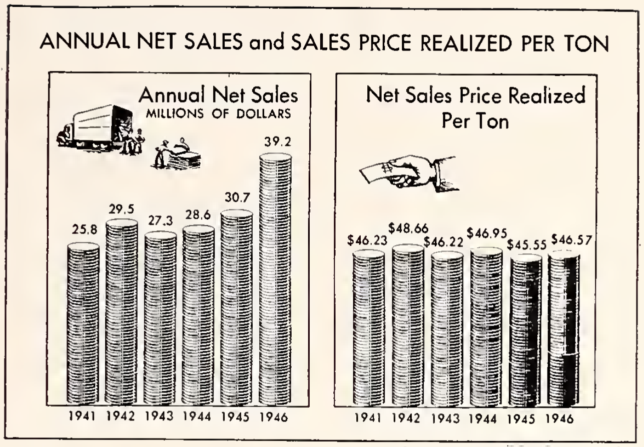
Courtesy, Link-Belt Company

Fig. 21



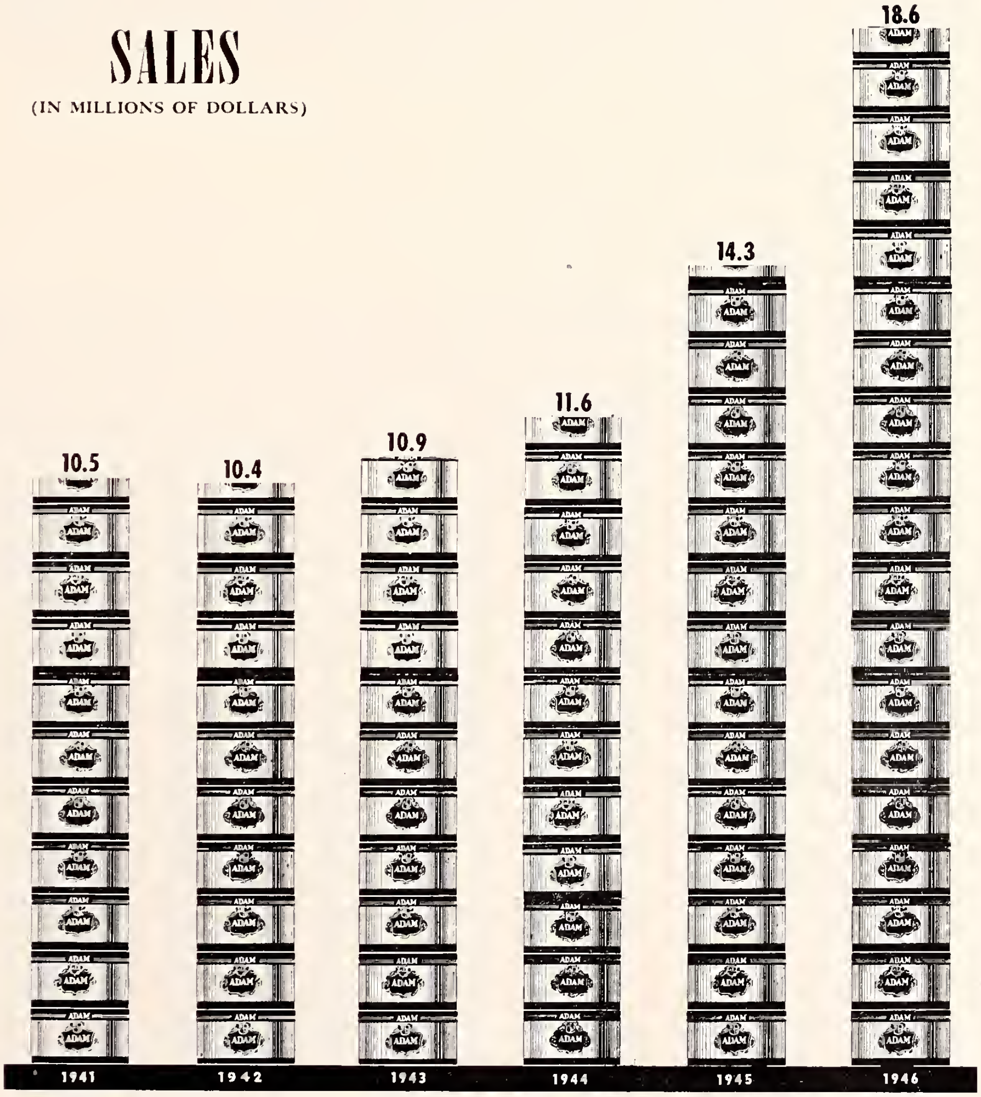
Courtesy, Sylvania Electric Products, Inc.

Fig. 22



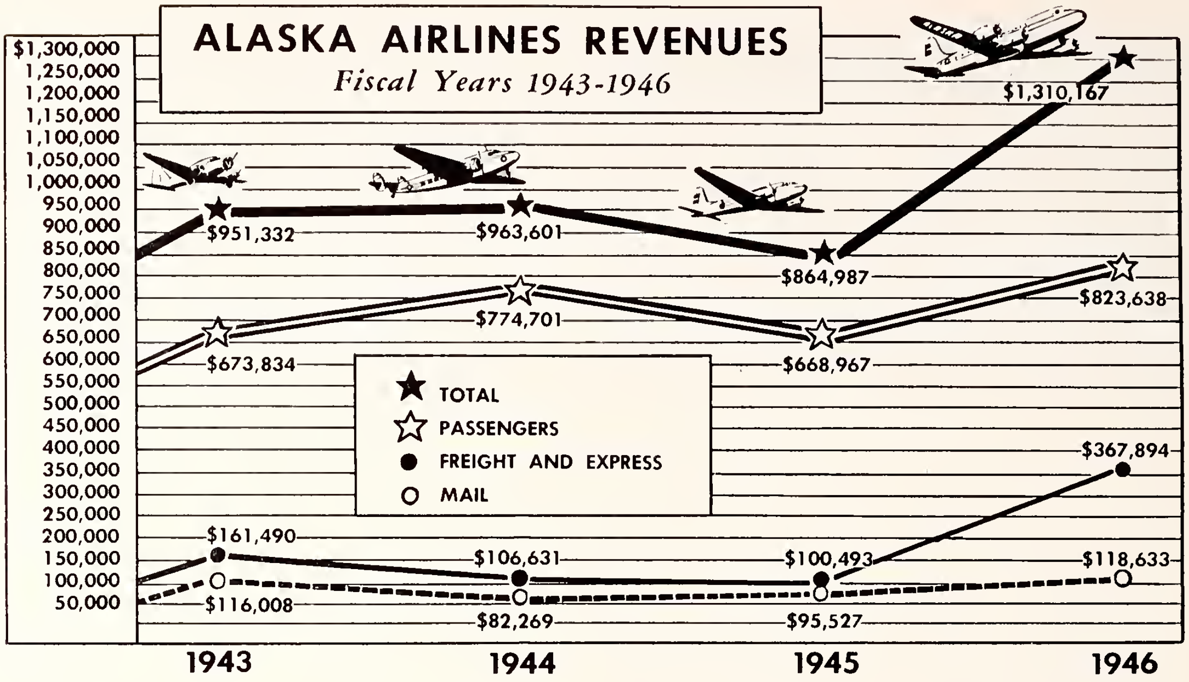
Courtesy, The Ruberoid Co.

Fig. 23



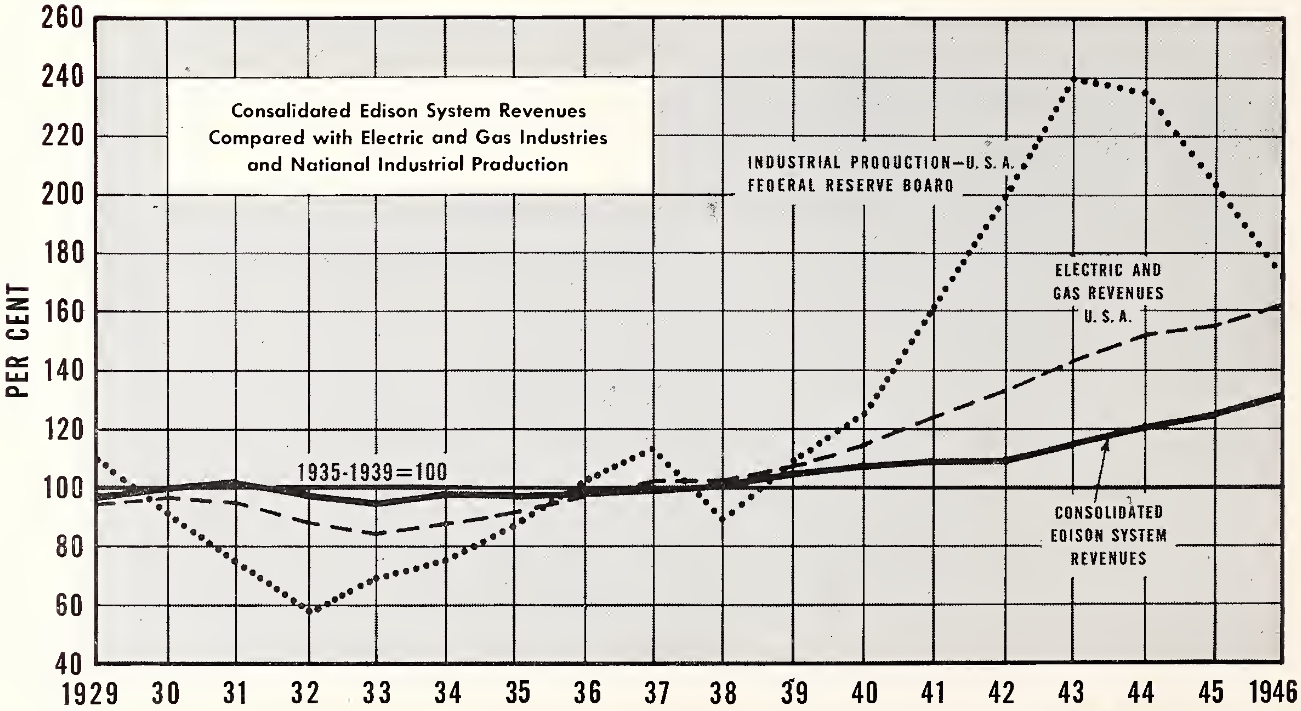
Courtesy, Adam Hat Stores, Inc.

Fig. 24



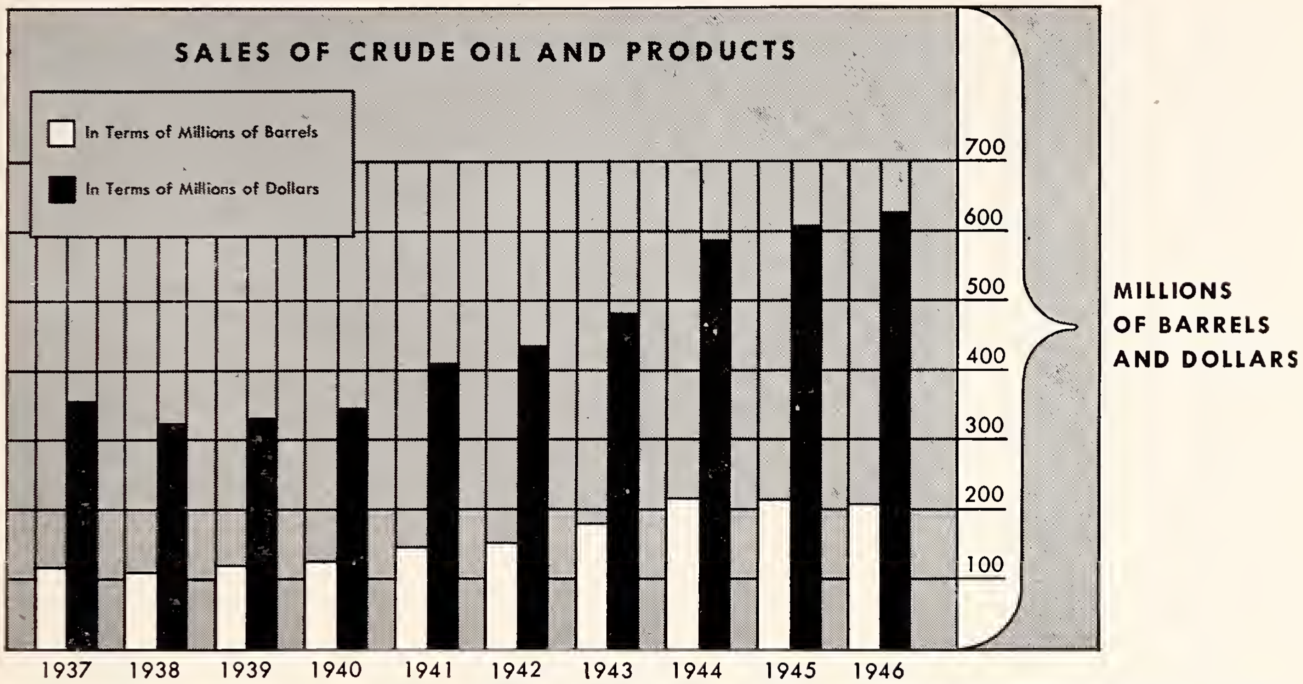
Courtesy, Alaska Airlines

Fig. 25



Courtesy, Consolidated Edison Company of New York, Inc.

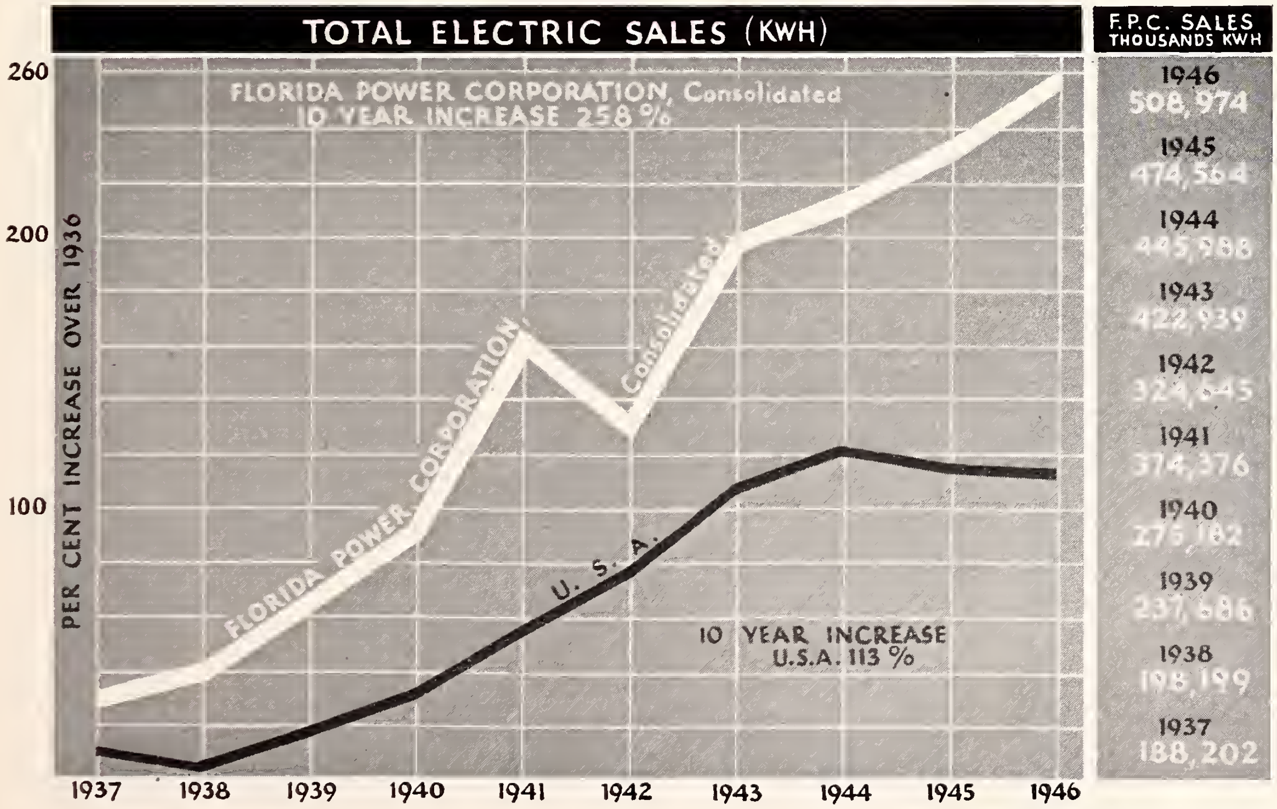
Fig. 26



Courtesy, Standard Oil Company (Indiana)

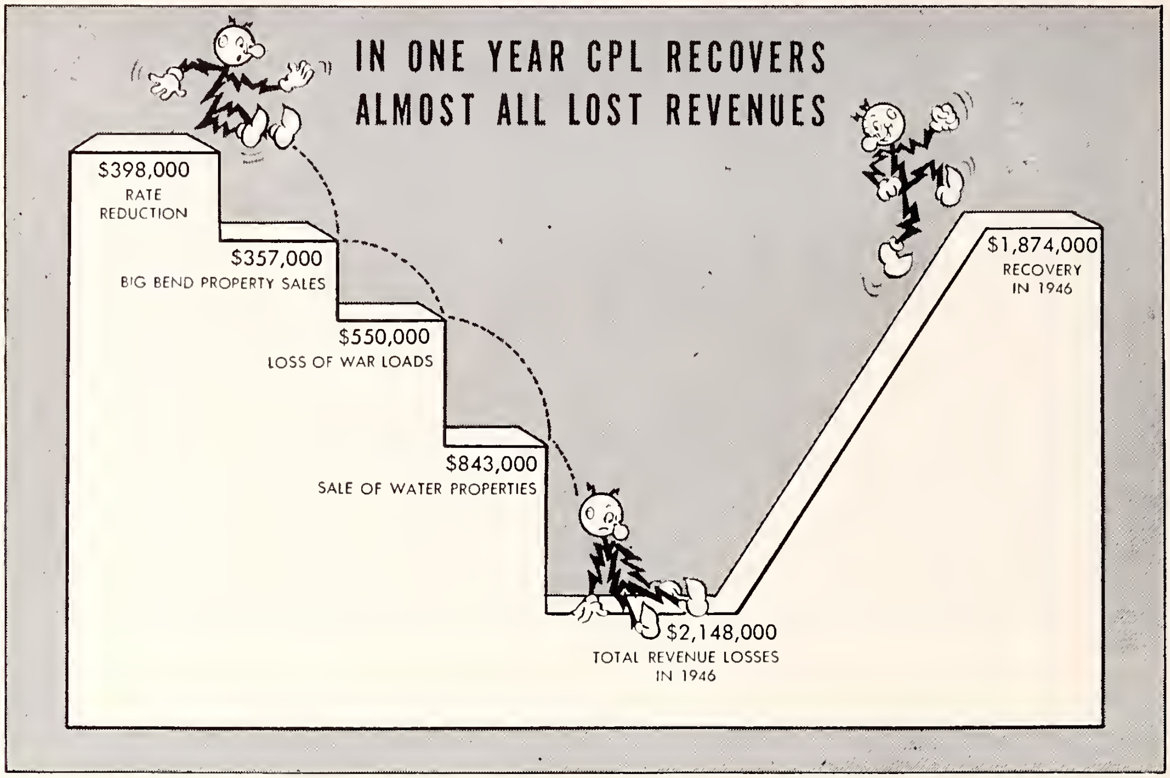
Fig. 27

TEN YEARS of PROGRESS... Compared to America's Electric Industry



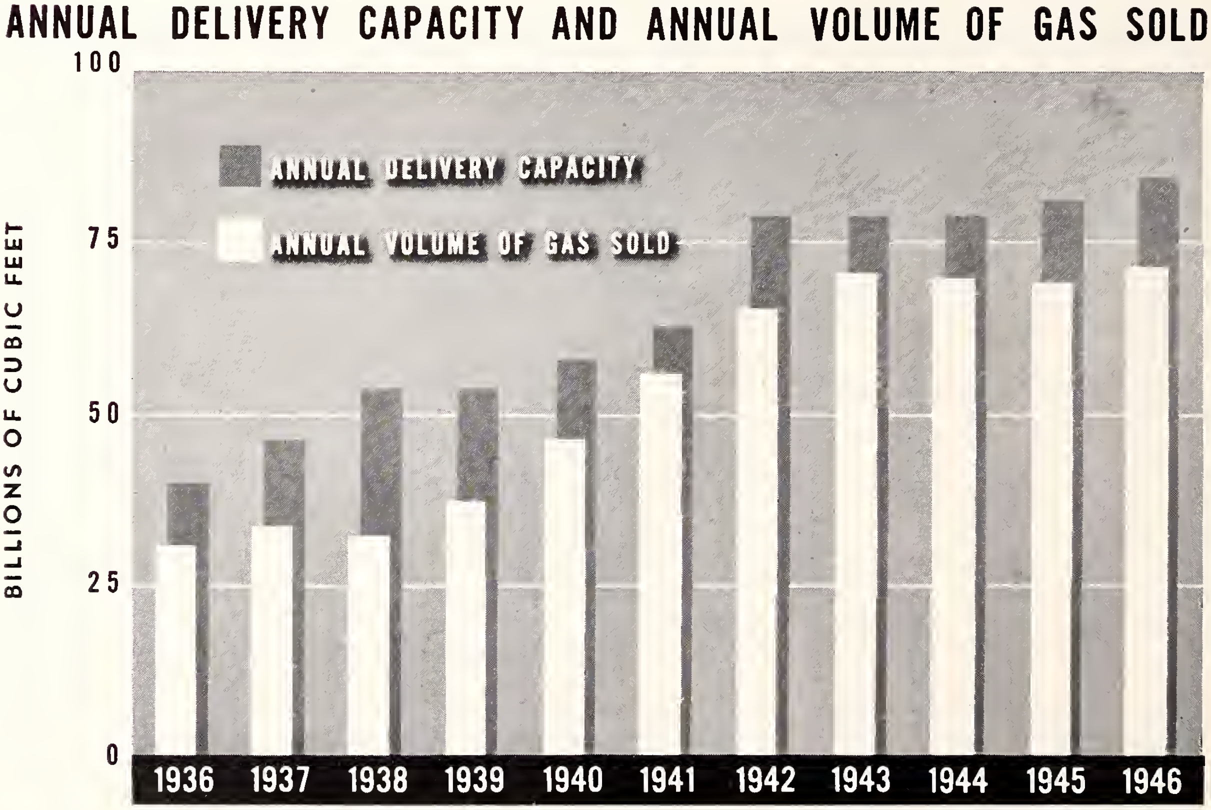
Courtesy, Florida Power Corporation

Fig. 28



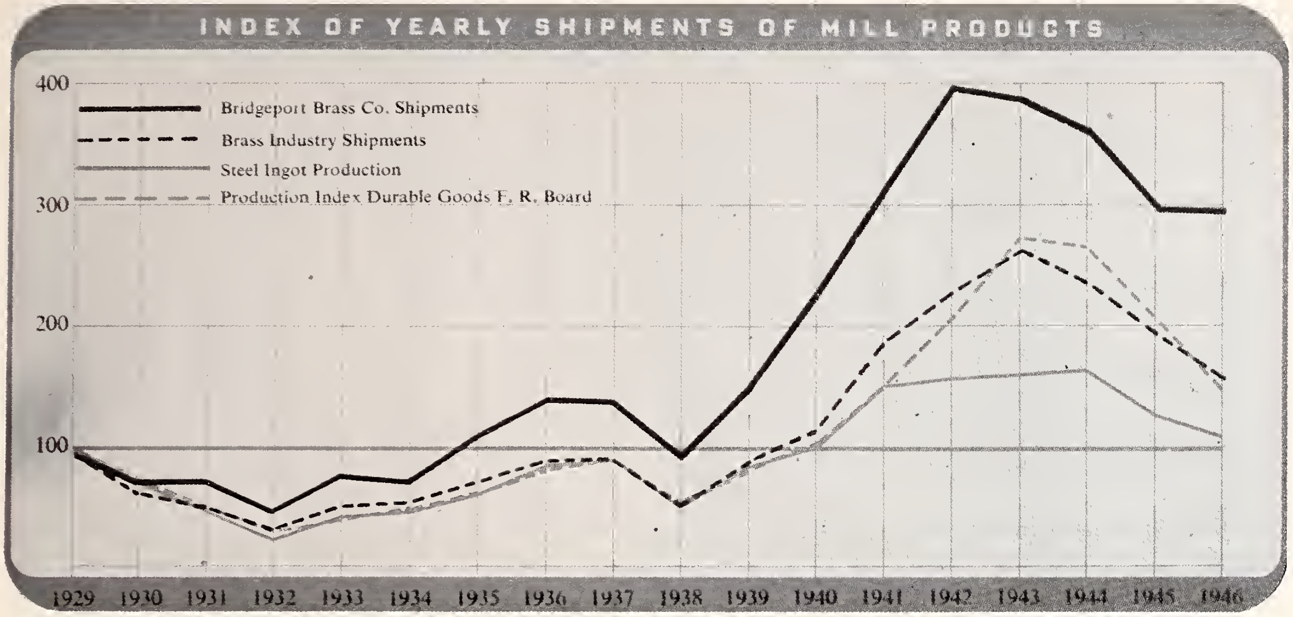
Courtesy, Central Power and Light Company

Fig. 29



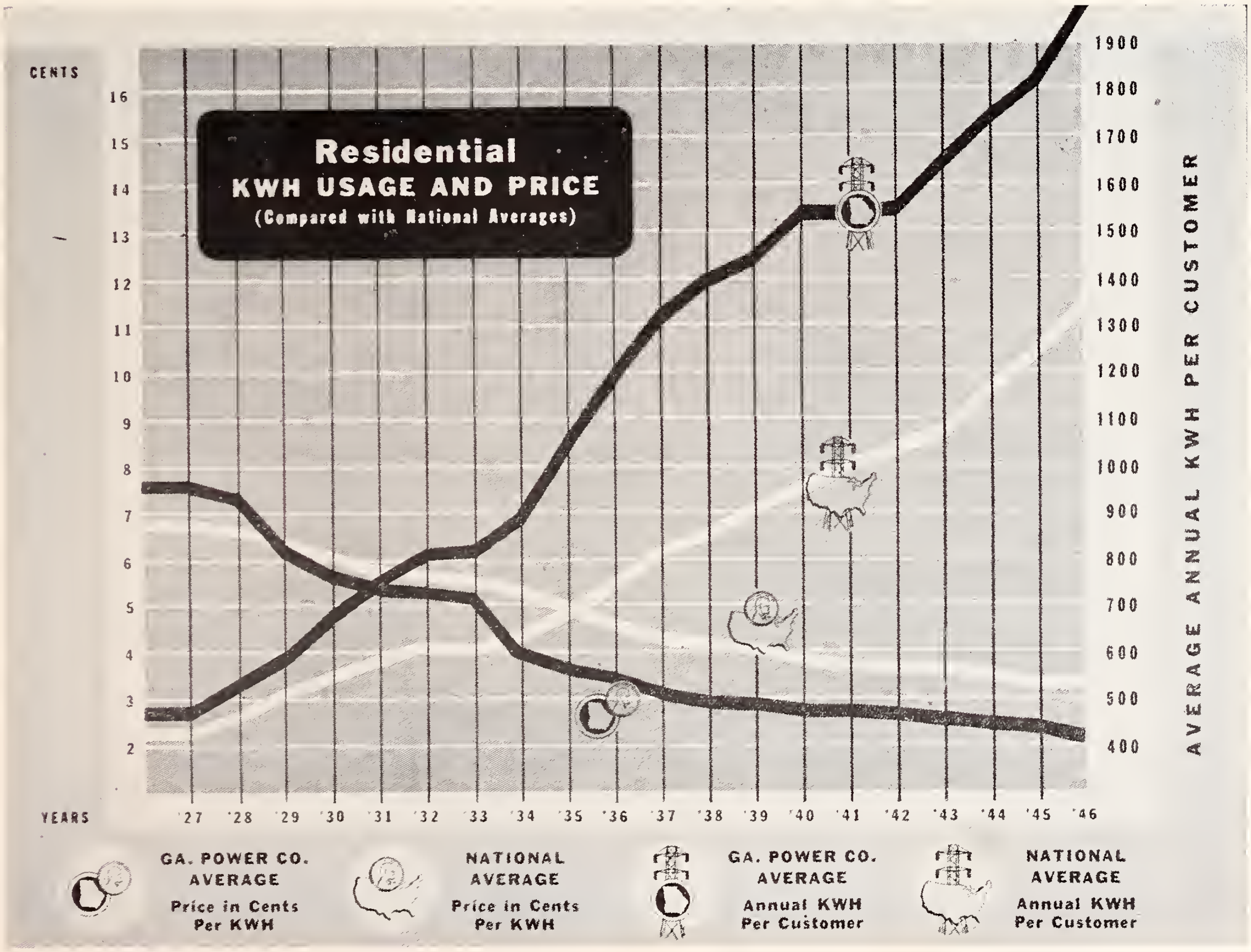
Courtesy, Southern Natural Gas Company

Fig. 30



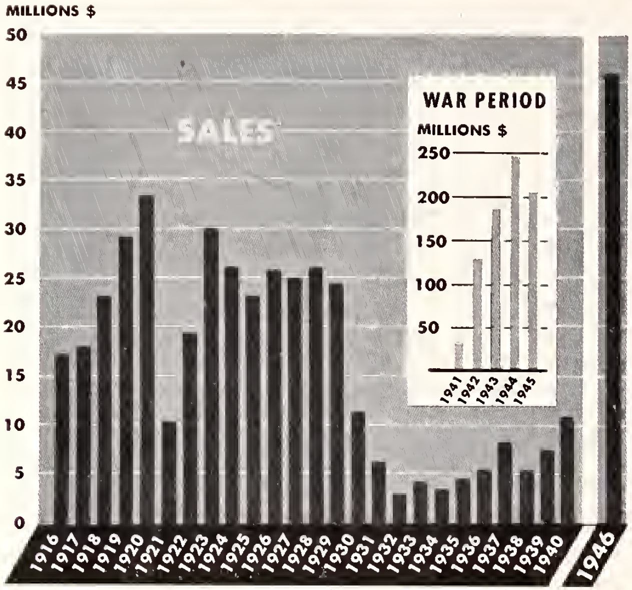
Courtesy, Bridgeport Brass Company

Fig. 31



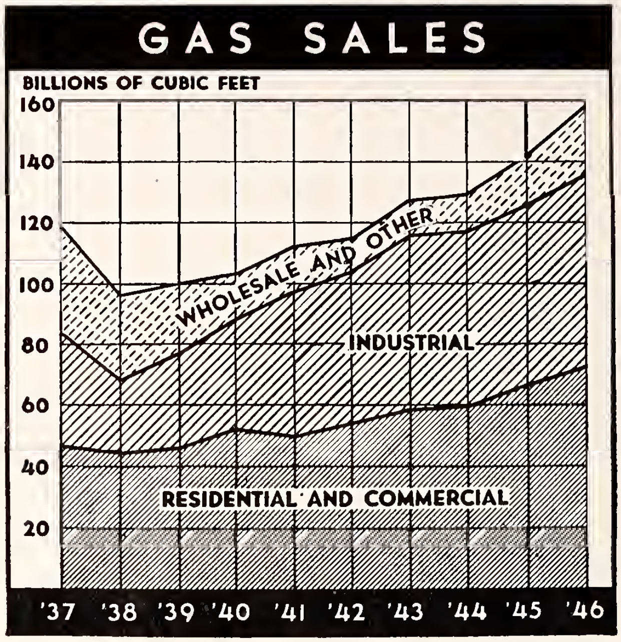
Courtesy, Georgia Power Company

Fig. 32



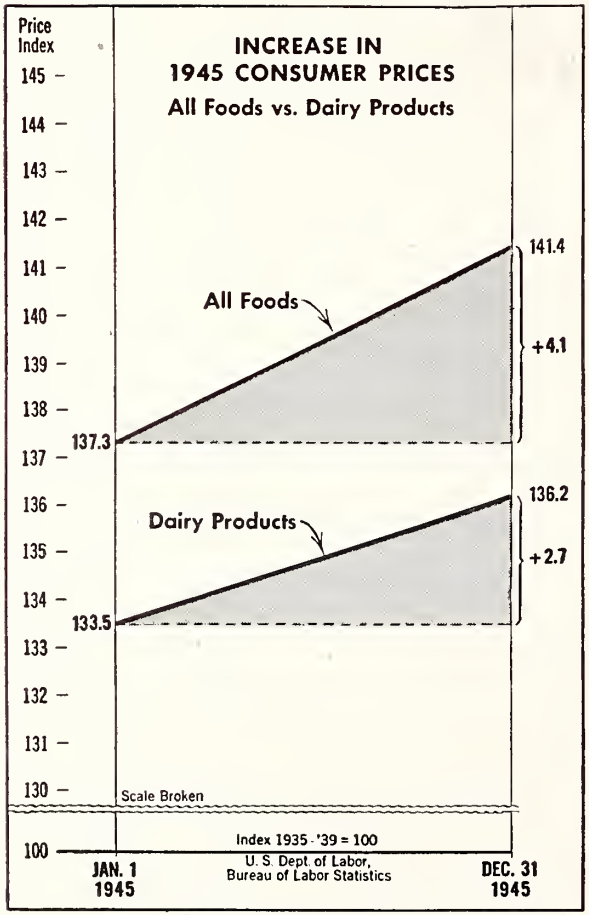
Courtesy, Continental Motors Corporation

Fig. 33



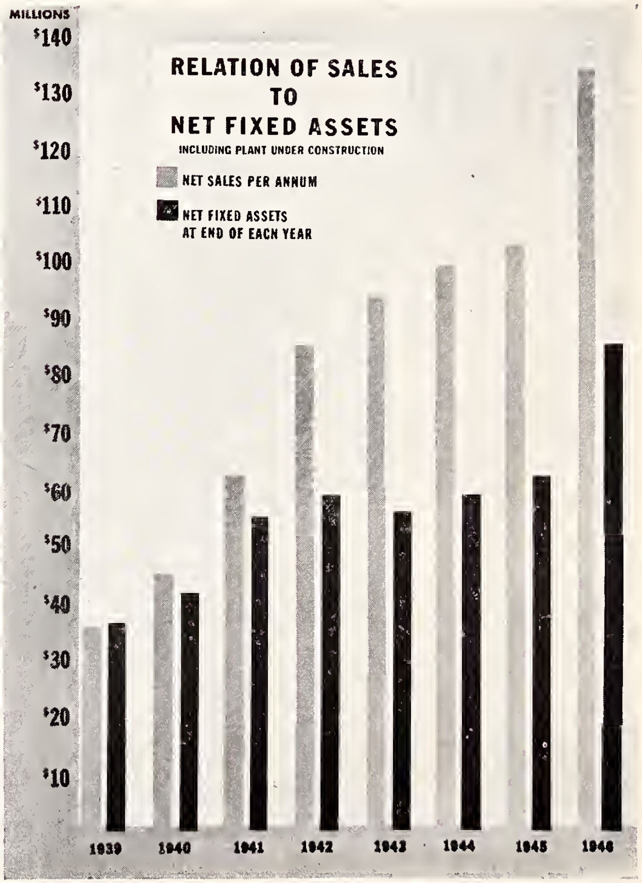
Courtesy, Consolidated Natural Gas Company

Fig. 35



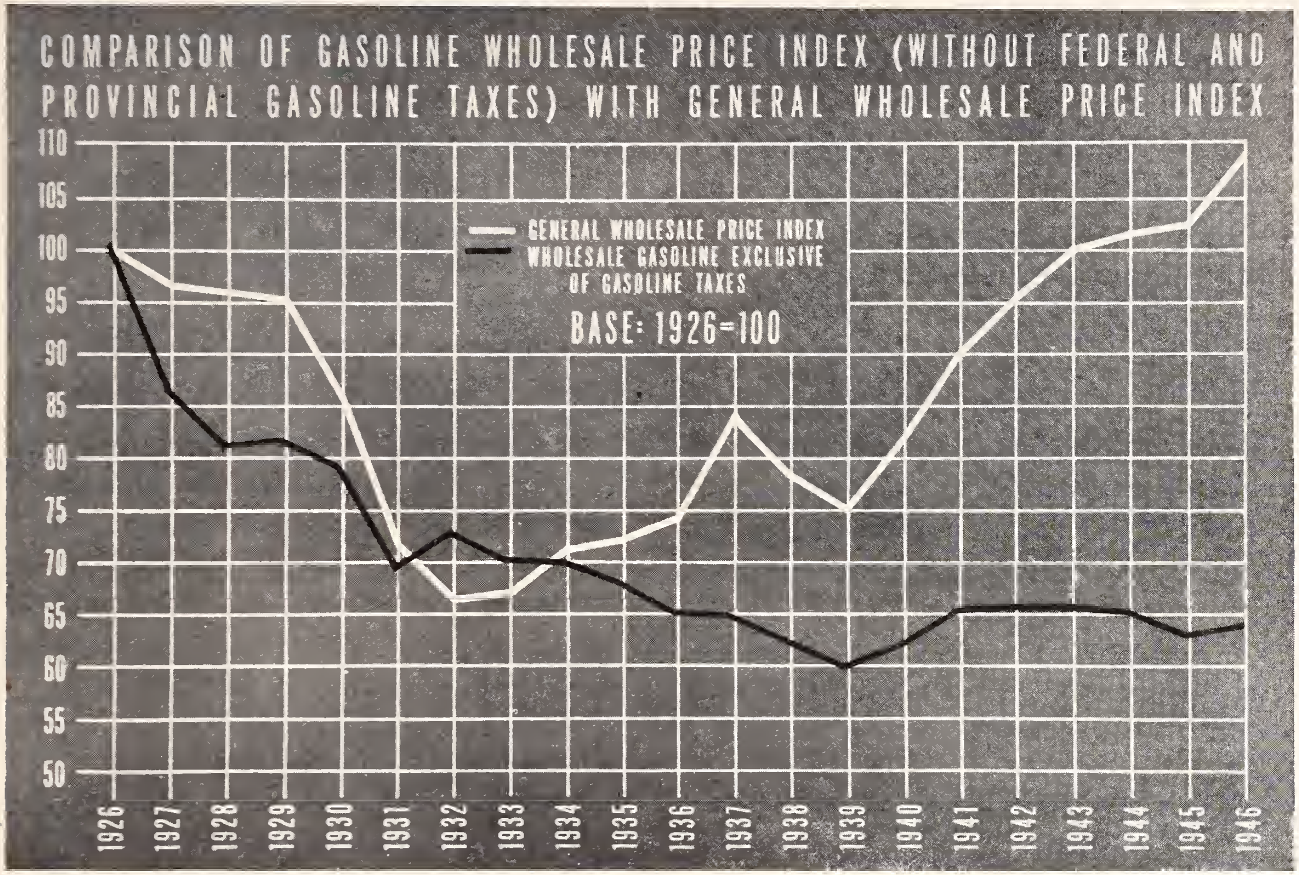
Courtesy, National Dairy Products Corporation

Fig. 34



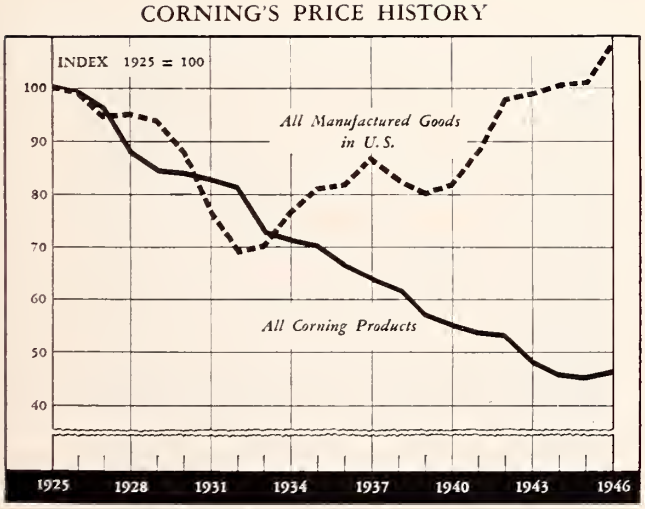
Courtesy, Celanese Corporation of America

Fig. 36



Courtesy, Imperial Oil Limited

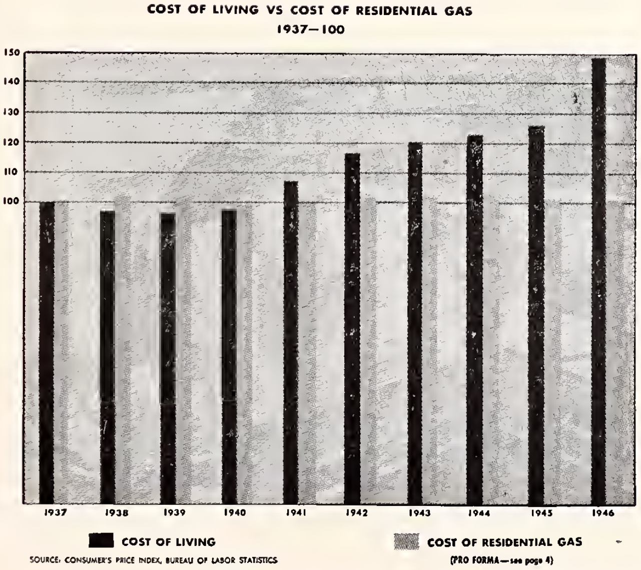
Fig. 37



Graph compares the price index since 1925 of Corning products with all manufactured goods in the United States. Figures used represent general averages for each year. 1946 figures are preliminary. The line showing Corning products is a weighted average of 166 different items of ware.

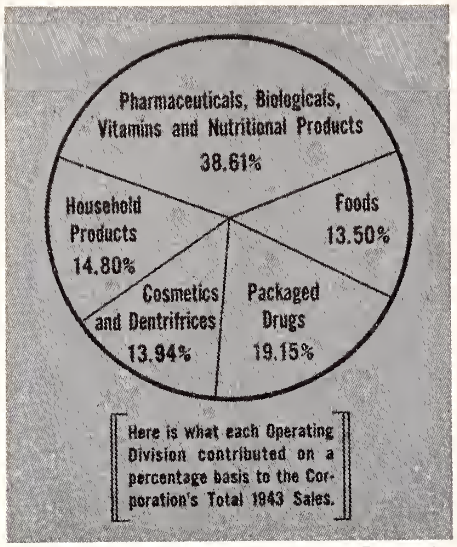
Courtesy, Corning Glass Works

Fig. 38



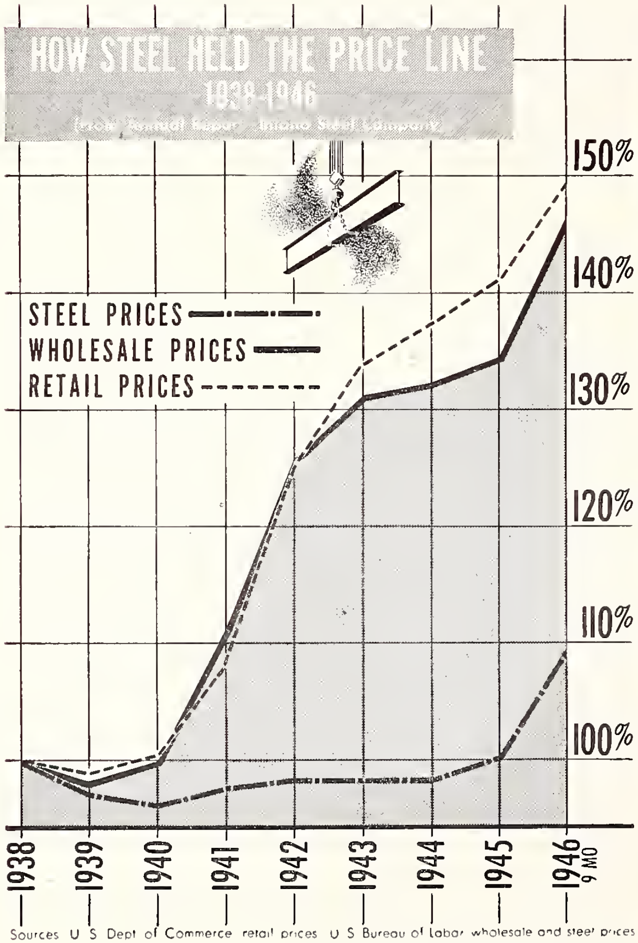
Courtesy, Columbia Gas & Electric Corporation

Fig. 39



Courtesy, American Home Products Corporation

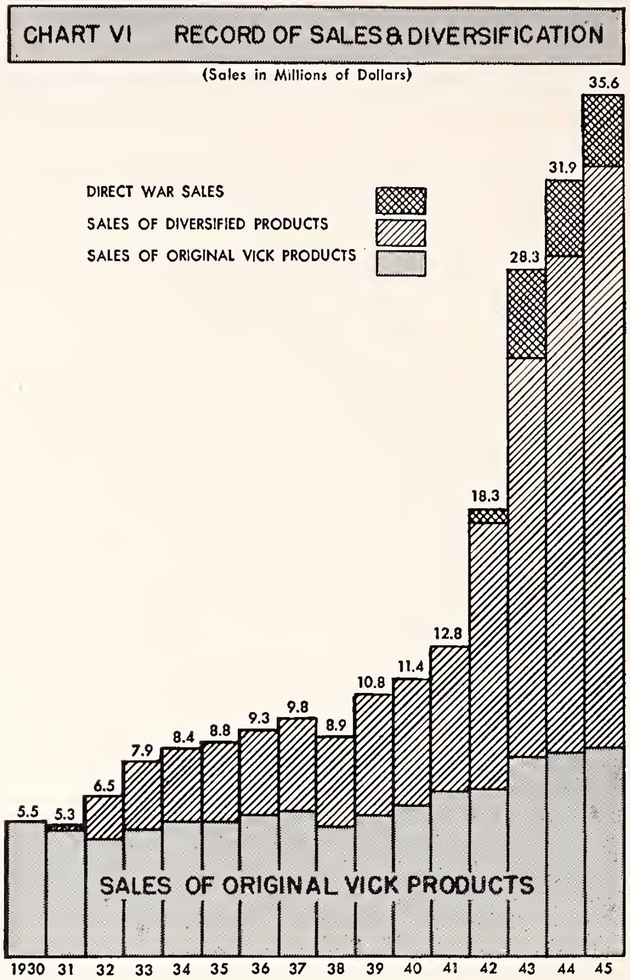
Fig. 40



Sources U S Dept of Commerce retail prices U S Bureau of Labor wholesale and steel prices

Courtesy, Inland Steel Company

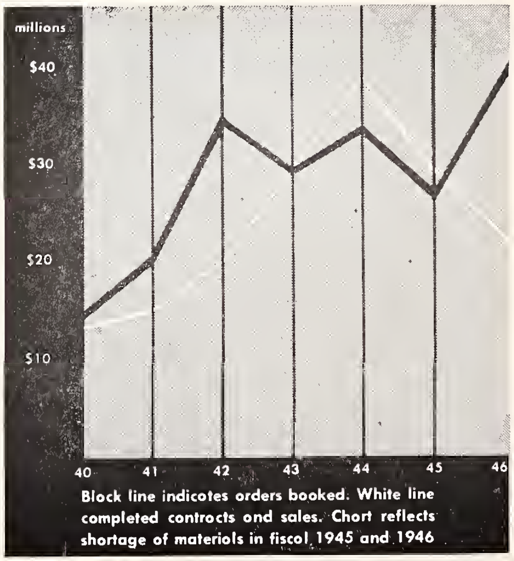
Fig. 41



This is the record of our accomplished diversification in sales. Prior to 1931 our total sales were from the original Vick products. In 1945 only 25 per cent of our sales came from the original products and 75 per cent from other products in Vick and its new subsidiaries.

Courtesy, Vick Chemical Company

Fig. 42



Courtesy, Carrier Corporation

Fig. 43

REPORTING ON WHERE THE SALES DOLLAR WENT

Among the items that make up the cost of doing business, two invariably receive special attention in comprehensive annual reports—wages and taxes. Ideas for reporting on these items are therefore given separately in Chapters 10 and 11. In this chapter, ideas are given for reporting upon such items as costs of materials and supplies, depreciation, and other operating, selling and general expenses.

Since each dollar of income is distributed principally among the items that make up the cost of doing business, it is appropriate to discuss in this chapter the methods of showing how money taken in was spent.

WHERE THE SALES DOLLAR WENT

Every modern annual report offers information to show where the sales dollar went. This feature has won almost universal acceptance in annual reporting because: (1) The information is easily grasped, (2) it is comprehensive, reflecting every phase of the company's operations for the year, (3) it lends itself to a variety of presentations in both statistical and graphic form.

Many names have been given to the analysis based upon dollar sales. It has been called, for example, "19— Receipts and Disbursements," "Where Our Sales Dollar Went," "Source and Disposition of Income," "Analysis of 19— Operations," "How our Dollar Was Used," "The 19— Revenue Dollar—Where It Came From and Where It Was Spent," "19— Distribution of Income," "How the Sales Dollar Was Divided in 19—," "What We Did with the Money Received for the Work We Completed." It has also been referred to as an "Income-Outgo" statement.

THE STORY OF HOW THE DOLLAR WAS USED

The story of where the sales dollar came from and went to is essentially an interpretation of the income statement for the year. It can be told in the following forms:

1) *Statistical.* A statement similar to the simplified income statements given in Chapter 14 and at page 74, is presented. In addition to the total figures, or in lieu of them, the relationship of each item of outgo to total income is shown. This is done through:

(a) A column called "Cents per dollar of sales." The total sales represent $1.00 and each item of cost is indicated as cents per dollar of sale; or

(b) A column called "Percentage." The total sales represent 100% and each item of cost is indicated as a percentage of the total sales.

2) *Graphic.* Charts showing the distribution of the sales dollar reveal more clearly than any other single chart the results of the year's operations. They are a satisfactory way of showing graphically the costs of doing business. The charts are most commonly presented as sector or pie charts. To add interest to the illustration, various techniques have been employed, such as color to differentiate the various sectors, symbols to represent the type of outgo, and the like. The various portions are usually indicated as cents or per cents and, if a large enough chart is drawn, the amount of dollars may be included in the sections. Frequently there is presented, along with the chart of outgo, a corresponding chart showing where the dollar came from. If the "income and outgo" information is to be shown for a number of years, the bar-chart is more suitable. See page 72 for further comments on "dollar of sales" charts. A number of examples of such charts are given at pages 78 et seq.

3) *Narrative.* The narrative consists of an explanation of each of the items noted in the statistical or graphic presentation. Whether the narrative is included along with the analysis or in another part of the report depends upon the plan of the report. Checklists for points that may be

covered in explaining the items that make up the analysis will be found as indicated below.

Amount received from sales: page 57.
Cost of materials and supplies: page 73.
Wages and salaries: page 134.
Depreciation: page 73.
Taxes: page 153.
To owners: page 91.
Retained in the business: page 104.

SOME SHORTCOMINGS OF DIVIDING THE SALES DOLLAR

In some companies, the largest item among the costs of doing business is the amount paid for the purchase of materials and supplies. In such companies, labor appears to get a proportionately small part of the sales dollar, yet wages in such companies may be no lower than in companies that spend the major part of their sales dollar in wages. Thus, the company with heavy material-costs is at a disadvantage in showing where the sales dollar went. The laborer or man in the street reading the report may conclude that labor is not getting enough of the company's sales dollar. If this erroneous conclusion is drawn, the statement is harmful to the company.

What shall the company do about it? Shall it avoid showing how the sales dollar was divided? Obviously, that is not the solution, for it is generally agreed that stockholders, employees and the public are interested in what becomes of the company's dollar receipts. Shall it anticipate the unfair criticism by pointing out that the wages paid by the producer of the raw materials are included in the costs of materials? A few companies have tried this method. Its effectiveness is doubtful. Shall the company ask its suppliers to tell what part of the materials bill is attributable to labor? The inquiry is not worthwhile. The difficulties of tracing back the labor costs in materials purchased are too clear. And few people would believe the figures.

Only one real solution is offered:[1] To discard the sales dollar as the basis for analyzing the costs of doing business, and to substitute as the basis the "value added" by the company's operations. This *value added* is found by taking the amount received from customers and subtracting the amount paid for materials and supplies. Each item of the cost of doing business—except, of course, materials and supplies—is then shown as a proportion of the *value added* figure rather than of the total sales figure. An actual example of such an analysis of operations is given at page 74.

A simple example will show the difference between dividing the sales dollar and dividing the *value added*.

Division of Sales Dollar

Sales	$1,000,000 (100%)
Divided as follows:	
Materials and supplies	750,000 (75%)
Wages and salaries	175,000 (17½%)
Taxes	30,000 (3%)
Wear and tear	15,000 (1½%)
Paid to owners	12,500 (1¼%)
Retained in the business	17,500 (1¾%)
Total	$1,000,000 (100%)

Division of Value Added or Sales Dollar After Deducting Cost of Materials

Sales	$1,000,000
Less cost of materials and supplies	750,000
Amount available for the balance of the needs of the business	$250,000
Divided as follows:	
Wages and salaries	$175,000 (70%)
Taxes	30,000 (12%)
Wear and tear	15,000 (6%)
Paid to owners	12,500 (5%)
Retained in the business	17,500 (7%)
Total	$250,000 (100%)

JUSTIFICATION FOR THE VALUE ADDED BASIS

The *value added* method of analyzing operations is not suggested as a mere expedient for showing that wages and salaries represent a high percentage of the cost of doing business. It finds justification in the argument that the value of products sold is not a satisfactory measure of what the company accomplished during the year. Take, for example, companies *A* and *B*, each with $1,000,000 of sales. Company *A* has worked upon raw materials that cost $750,000. Company *B* used very few raw materials but created its products largely through labor. Which company has accomplished more? Obviously, Company *B*.

The *value added* concept in measuring accomplishment is not new in business analysis. The *Census of Manufactures* has used it in studying the growth of manufactures. The following quotation from the *Census of Manufactures, 1939*, prepared under the supervision of Thomas J. Fitzgerald, Chief Statistician of Manufactures, and published in 1942 by the United States Government Printing Office, explains the importance of the *value added* in comparing one industry with another.

---

[1] See "What Measuring Stick for Business," by William H. Griffiths, *Point of View*, September, 1947, p. 17, published by Geffen, Dunn & Co., New York, N. Y.

> The value of products is not a satisfactory measure of the importance of a given industry, because only a part of this value is actually created within the industry, another, and sometimes much larger, part being contributed by the materials used. For some purposes the most satisfactory measure is "the value added by manufacture"—that is, the increase in the total value of commodities in existence as represented by the difference between the cost of the materials, etc., consumed and the value of the products made from them. It is calculated by subtracting the cost of materials, supplies, containers, fuel, purchased electrical energy, and contract work from the value of products.
>
> This net addition to the value of commodities is almost free from the duplication that is a factor in the total value of products.
>
> In comparing manufacturing industries with one another, the relation between the value of finished products and the cost of materials should be kept constantly in mind. The products of one industry may be valued at the same amount as those of another, but in one case, in which low-cost materials are used and much labor is expended on them, several times as much value may be added to the materials as in the other industry, where the materials are expensive and only a small amount of labor is required to process them. It is obvious that the industry that adds the greater amount of value is of the greater economic importance.

Very few companies so far have analyzed their operations from the standpoint of the division of each dollar of *value added* (sales minus cost of materials). The idea is comparatively new in annual reports. It could, however, be used more generally by all companies, whether or not they spend a substantial part of the year's receipts for materials and supplies. Only one objection can be raised to it: The percentage of profits shows up larger than if profits are taken as a percentage of the sales dollar. But even that argument loses weight in view of the fact that all the items are higher percentagewise. They all, however, retain their relative positions. The simple example at page 72 brings this out clearly.

CHECKLIST FOR COMMENTARY ON MATERIALS AND SUPPLIES

Total amount spent on materials and supplies.
Kinds of materials and services bought and amount spent on each kind.
What total costs of materials and supplies amount to per worker.
Labor's responsibility for preventing waste of material.
Changes in costs of materials. (Sometimes covered in reporting on profits; see page 90.)
Patronage of "home town" suppliers.

CHECKLIST FOR OPERATING EXPENSES

Total cost of goods sold compared with previous year. (Not always disclosed because of competitors' interest in them; but see page 32.)
Reasons for increase or decrease in operating costs.
Operating ratio reflecting the ratio of operating expenses to gross revenue. (Indicate items excluded from operating expenses.)
Unusual charges to operating expenses that distort comparison with previous year.

CHECKLIST FOR DEPRECIATION

Explain the nature of depreciation since the term is generally misunderstood. (Common misconceptions: Depreciation is a fund; is not an operating expense; deductions are excessive to hide profits.)
Differentiate between depreciation and current maintenance.
Tell whether rates were same as for previous year.
What has general depreciation policy been. Changes in policy.
Explain how a year's wear and tear is measured.
What has been company's experience with obsolescence.
With costs of durable goods higher than in years during which depreciation allowances were made, what happens if the allowance proves insufficient.

What happens if too much depreciation has been allowed.

IDEAS FOR STATISTICAL DATA

Statistics of operating costs are not usually found in reports of industrial companies. The utilities and the railroads, on the other hand, report fully on operating expenses. Some examples of adaptable tables are given below. Notice how statistics of operating costs are matched against operating revenues.

ANALYSIS OF 19— OPERATIONS

$10,767,483	– Sales made to customers
119,478	– Other Income
$10,886,961	– Total Sales and Income
3,956,416	– Paid for raw materials, power, fuel, and other purchased items which we used
$ 6,930,545	– Available for the balance of the needs of the business and used as follows:
$ 5,346,314	– Wages and Salaries
662,822	– Taxes
161,499	– Wear and Tear on Plant and Equipment
39,989	– Interest on Borrowed Money
365,420	– Dividends to Stockholders
354,501	– Retained in business for working capital, plant expansion, and other needs of the business

[*Sprague Electric Company*]

HOW ARMOUR'S INCOME IS DIVIDED — 19—

	Cents per Dollar of Sales
Paid for raw materials, livestock, dairy and poultry products, etc., and supplies	74.72
Paid to employees	12.70
Paid for transporting our product to customers	1.91
Paid for maintenance and repairs, depreciation, motive power, communications and traveling, insurance, advertising, etc.	4.64
Interest on debt	.32
Taxes, federal, state, local and foreign	3.15
	97.44
Balance (earnings)	2.56
	100.00

	Percent of Total Expenses 19—	Percent of Total Expenses 19—
Salaries and wages		
Gasoline and oil (exclusive of taxes)		
Depreciation		
Taxes		
Repair and overhaul materials		
Rent		
Insurance		
Advertising and Public Relations		
All other expenses		
Total	100.0	100.0

COMPARATIVE STATEMENT OF RAILWAY OPERATING EXPENSES

	19—	19—	Increase Amount	Increase %	Decrease Amount	Decrease %
Maintenance of way and structures	$	$			$	
Maintenance of equipment			$			
Traffic						
Transportation						
Miscellaneous						
General						
Total railway operating expenses	$	$			$	

COMPARATIVE STATEMENT OF RAILWAY OPERATING REVENUES AND EXPENSES BY MONTHS
(Exclusive of Taxes)
19— - 19—

	19—		19—	
Months	Revenues	Expenses	Revenues	Expenses
....	....	....	....	....
....	....	....	....	....
Ratio Operating Expenses			....	
Ratio Operating Expenses, Including Taxes			....	

STATEMENT OF RAILWAY OPERATING REVENUES AND EXPENSES FOR THE YEARS ENDED DECEMBER 31, 19— AND 19—, AND COMPARISON

	19—	19—	Increase Amount	%	Decrease Amount	%
Railway Operating Revenues	$	$	$			
Railway Operating Expenses					$	
Net Revenue from Railway Operations	$	$	$			

RAILWAY OPERATING REVENUES AND EXPENSES FOR THE YEARS 19— TO 19—

Year	Revenues	Expenses	Net Revenue from Railway Operations

EXCERPTS FROM COMMENTS ON COSTS

The excerpts reproduced below, taken from reports that have wide public as well as stockholder distribution, use the cost-element approach to reduce public misconception of company profits. They attempt to correct such common misunderstanding as: Business makes more profits than it actually does; business makes too much profit; profits are high because prices are high; if the business is big, the profits must be big; stockholders and the company benefit most when a company makes a profit over a period of years—not the employee or the public; business is out to make more than it deserves.

For other excerpts that indirectly treat the same subject, see pages 94, 140 et seq.; and 260 et seq.

Stockholders' contributions and costs

The stockholders of an industrial corporation combine their savings in a cooperative undertaking to bring together the tools of production, natural resources and human energy for the purpose of producing goods and services for customers. The customers, through their purchases, create employment and pay the costs of production. These costs consist of goods and services bought from others, the cost of human energy (wages and salaries), the cost of tools wearing out (depreciation, depletion and obsolescence), the cost of payments ordered by Government (taxes) and the cost of using the tools (amount remaining for the stockholders who own the assets of the corporation). [*Allied Chemical & Dye Corporation*]

REPORTING ON WHERE THE SALES DOLLAR WENT

A large corporation's expenditures in terms of a small business

John Smith and two other veterans raised $16,880, and with it they founded a business. That sum of money represents the tools of production and exchange of their firm—the capital. Some of it was borrowed but the rest was their own venture money on which no interest was paid. In 1945, the John Smith business sold $17,473 of goods to customers. Here is how the firm used their receipts: for products and services necessary in order to have the materials with which to do business, $6,701; for wages and other employment costs, $8,255; for wear and tear, $1,234; for interest, $35; for various kinds of taxes, $668. That left them at the end of the year with $580. Their income as owners of the business was about 3 per cent on sales and less than 4 per cent on the sum they had raised. The record of the John Smith business in 1945—if increased proportionately—was the record of U. S. Steel in 1945. [*United States Steel Corporation*]

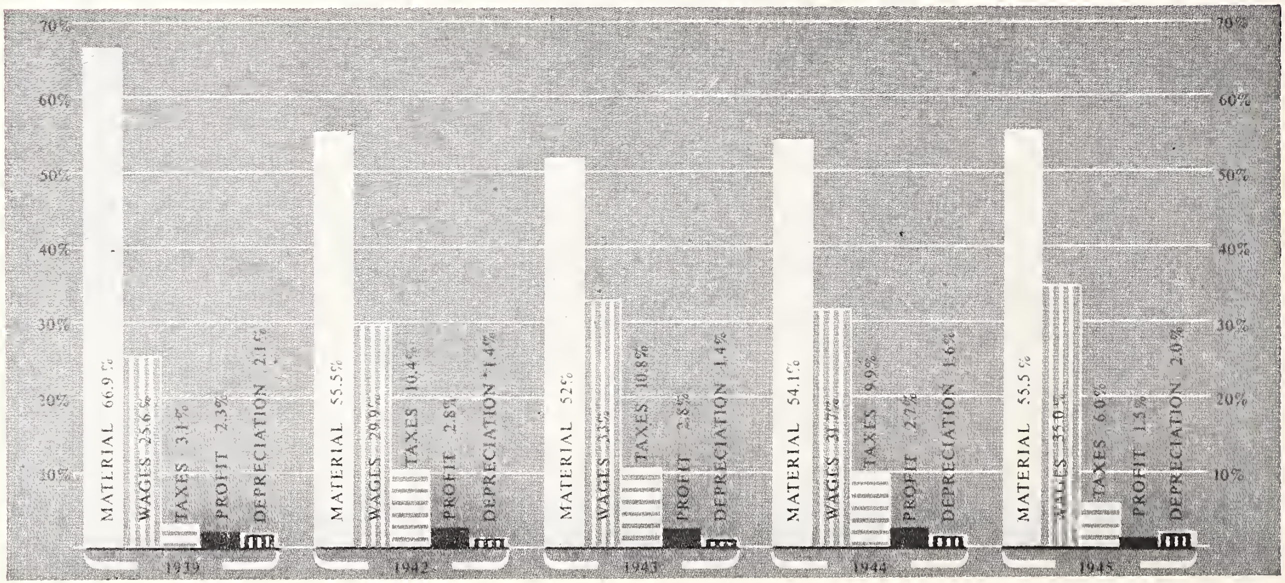
A comparison to bring out changes in values

In reviewing operations for 1946, it is interesting to compare the results for 1926 and 1946 when the volume of our business was approximately the same. The price received for our product in 1946 was 3% less than in 1926. Hourly wage rates in 1946 were 207% of 1926. Thus, the price received for a barrel of cement, which would have paid for 3.1 hours of labor in 1926, would only pay for 1.47 labor hours in 1946. A barrel of cement would have bought thirteen new cotton sacks in 1926, and only five new cotton sacks in 1946. In 1926, a barrel of cement would have bought 1.3 tons of coal at the mines for our Eastern plants; in 1946, approximately one-half ton.

This distortion of relative values, brought about largely by government restrictions, price controls, and selfish political pressure groups, must be corrected if industry is to survive under our system of free enterprise. [*Alpha Portland Cement Company*]

FIVE YEAR COMPARISON

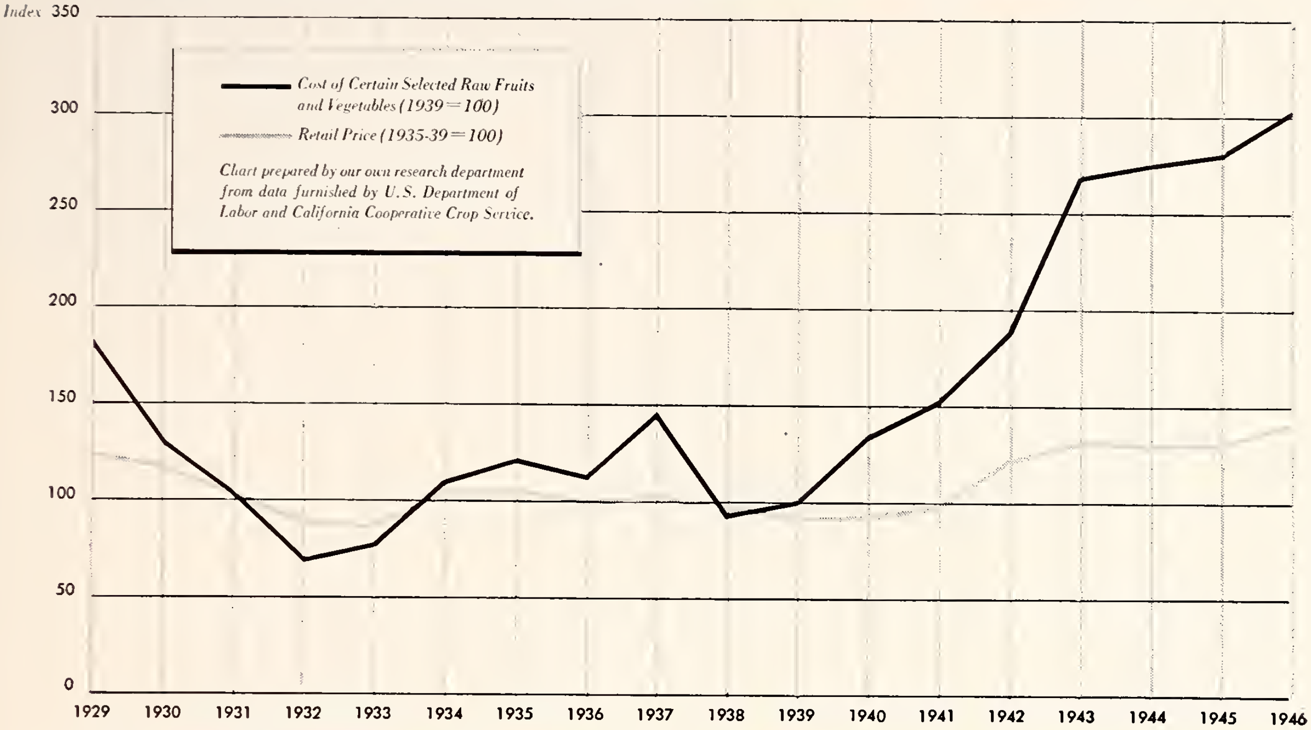
MATERIAL, WAGES, TAXES, PROFIT, AND DEPRECIATION
IN RELATION TO SALES



Courtesy, Bridgeport Brass Company

Fig. 44

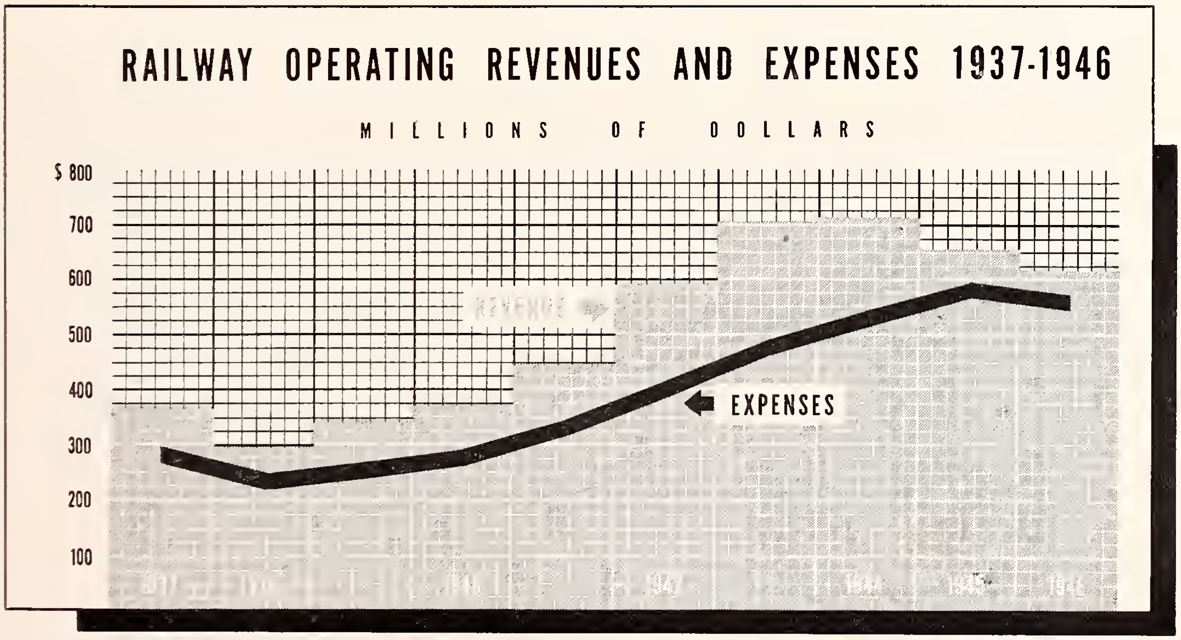
Raw Material Costs and Retail Prices of Canned Fruits and Vegetables



As can be seen on this chart, the index of prices paid the growers for certain fruits and vegetables in 1946 had increased approximately 200 per cent over 1939. The average of retail prices of all canned goods throughout the year 1946 was approximately 41 per cent higher than the average for the 1935-1939 period. Prices of such goods today, however, are higher than the average price shown for the full year 1946, reflecting the current market conditions.

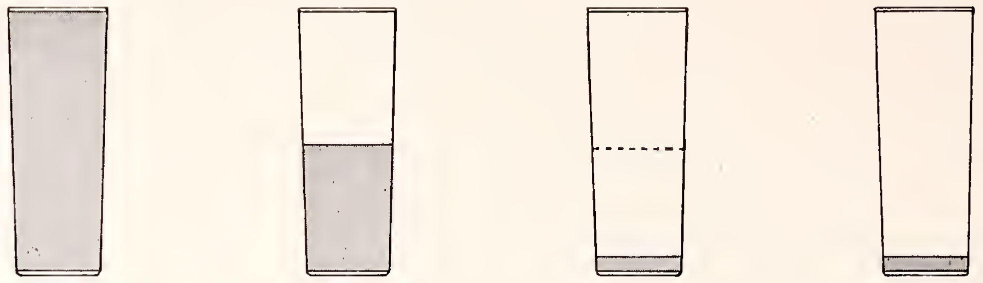
Courtesy, Hunt Foods, Inc.

Fig. 45



Courtesy, New York Central Railroad Company

Fig. 46



Here's a full glass of beer—representing Duquesne's Gross Income for the calendar year ended Dec. 31, 1945.

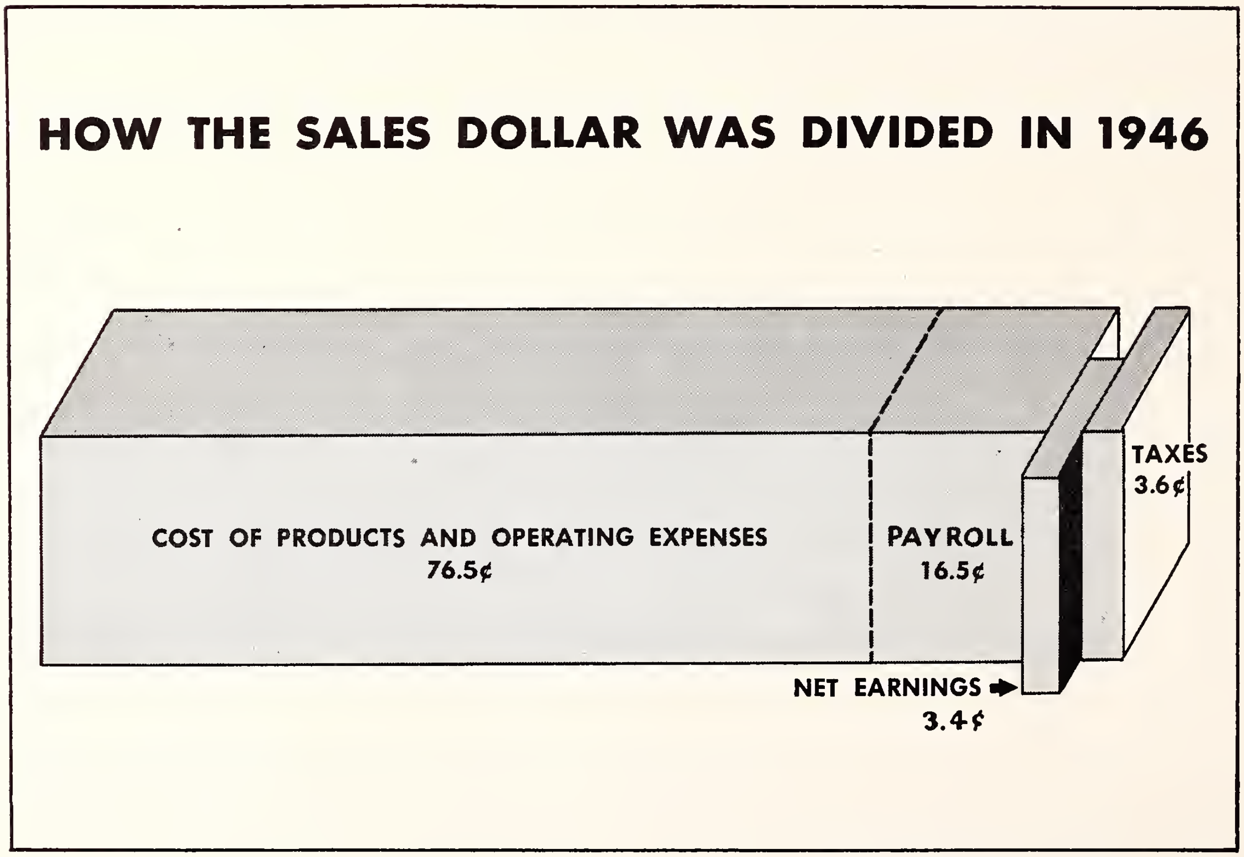
Government—National, State and Local—took the first big swig of 52% of the gross in Taxes.

Operating Expenses—the cost of Materials, amounts paid out as Wages, etc., accounted for the next 44.46%.

Left in the glass for transfer to Surplus Account is but 3.54%—a sip of the original total.

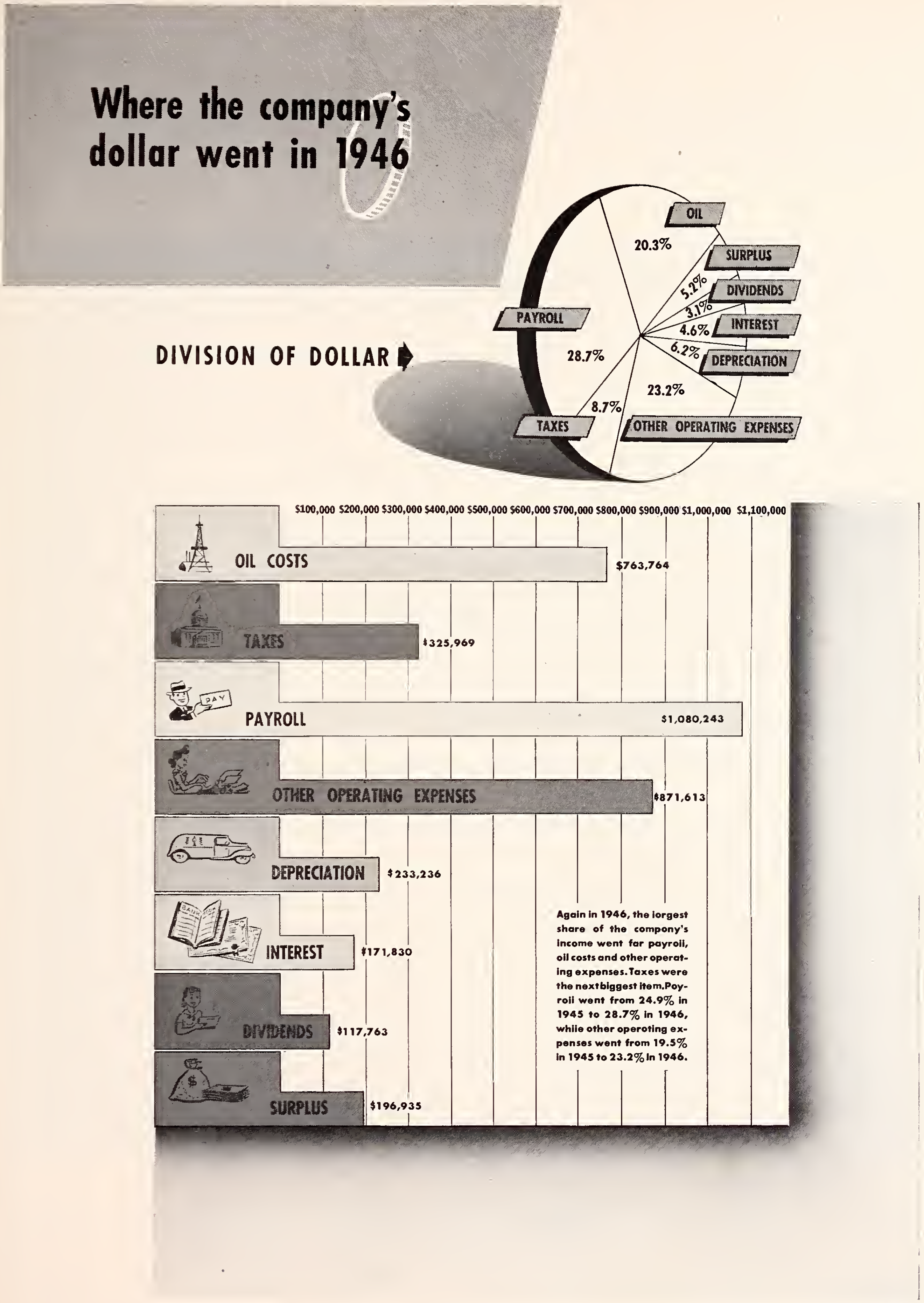
Courtesy, Duquesne Brewing Company

Fig. 47



Courtesy, National Dairy Products Corporation

Fig. 48



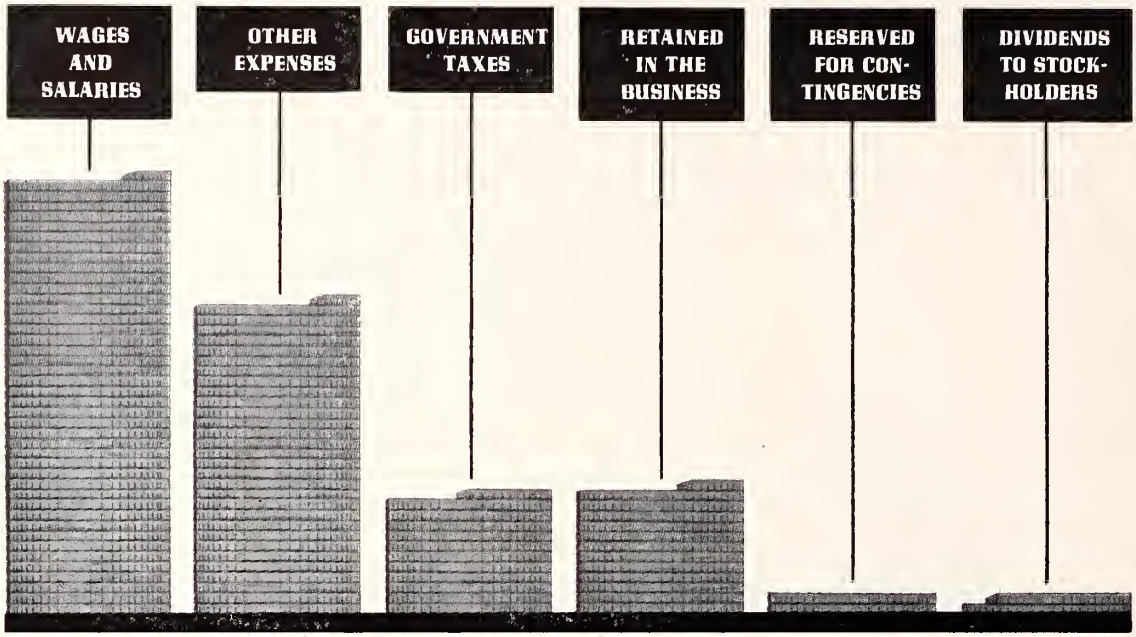
Again in 1946, the largest share of the company's income went for payroll, oil costs and other operating expenses. Taxes were the next biggest item. Payroll went from 24.9% in 1945 to 28.7% in 1946, while other operating expenses went from 19.5% in 1945 to 23.2% in 1946.

Courtesy, Seattle Gas Company

Fig. 49

HOW THE "LB" DOLLAR* WAS USED

(after deducting cost of merchandise)

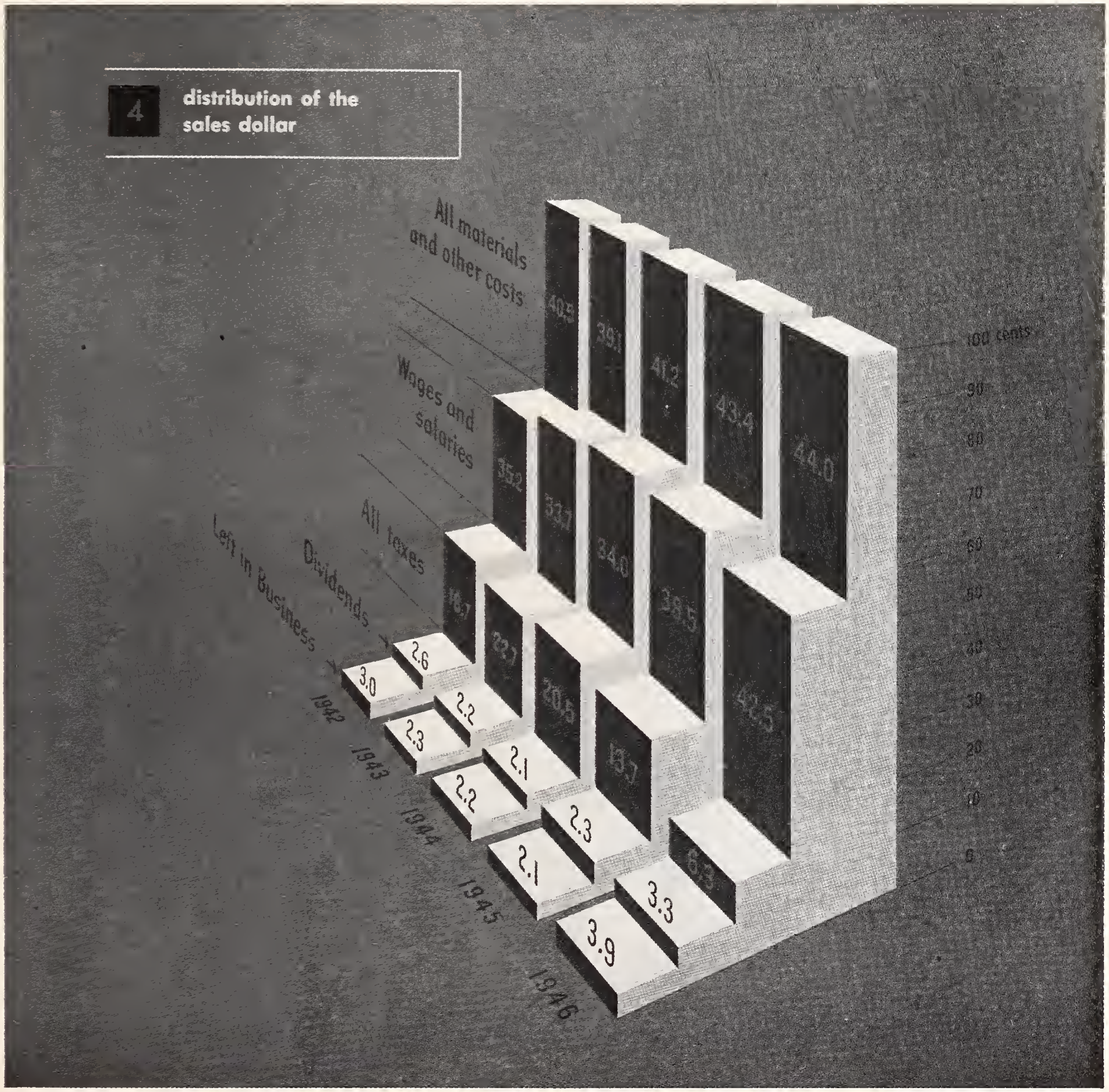


WAGES AND SALARIES		
	Including delivery and service contracts	**42.2c**
OTHER EXPENSES		
	Such as rent, publicity, supplies and general overhead	**30.2c**
GOVERNMENT TAXES		
	Paid or set aside	**11.5c**
RETAINED IN THE BUSINESS		
	Primarily to provide for expanding Accounts Receivable	**12.3c**
RESERVED FOR CONTINGENCIES		
	Such as Inventory Depreciation	**2.0c**
DIVIDENDS TO STOCKHOLDERS		
		1.8c
		100.0c

Courtesy, Ludwig Baumann & Company

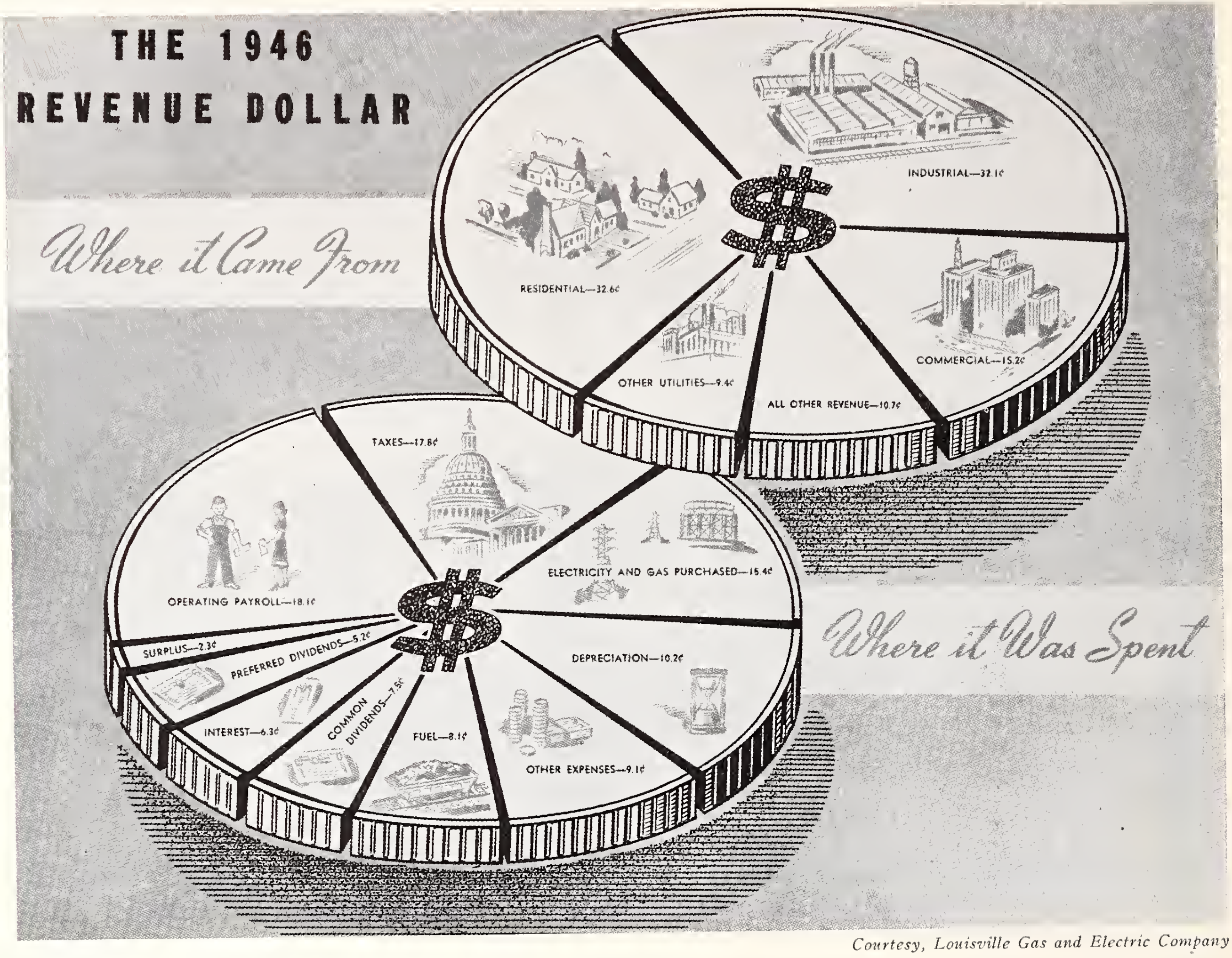
Fig. 50

a • report of the president



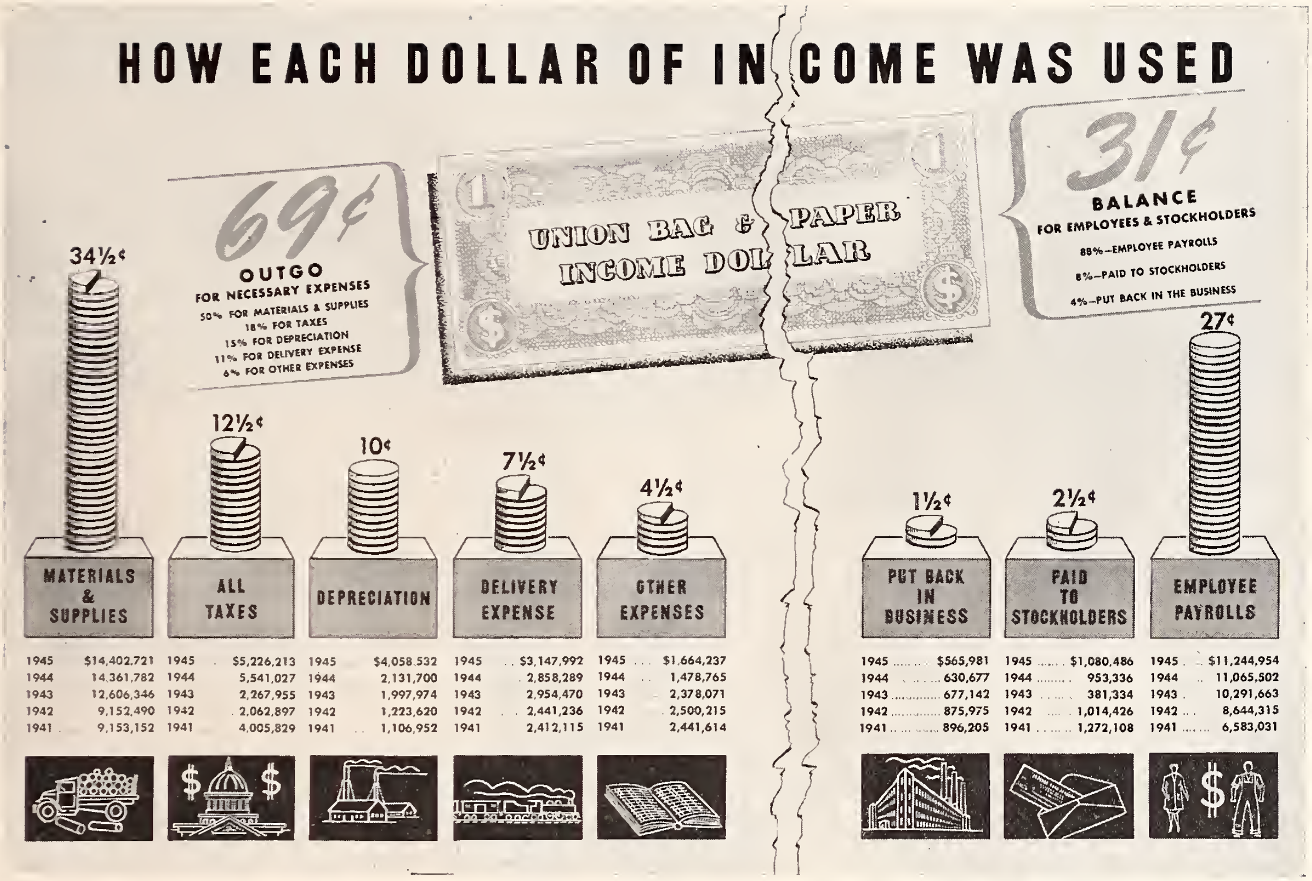
Courtesy, Link-Belt Company

Fig. 51



Courtesy, Louisville Gas and Electric Company

Fig. 52



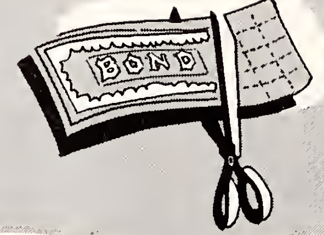
	MATERIALS & SUPPLIES	ALL TAXES	DEPRECIATION	DELIVERY EXPENSE	OTHER EXPENSES	PUT BACK IN BUSINESS	PAID TO STOCKHOLDERS	EMPLOYEE PAYROLLS
1945	$14,402,721	$5,226,213	$4,058,532	$3,147,992	$1,664,237	$565,981	$1,080,486	$11,244,954
1944	14,361,782	5,541,027	2,131,700	2,858,289	1,478,765	630,677	953,336	11,065,502
1943	12,606,346	2,267,955	1,997,974	2,954,470	2,378,071	677,142	381,334	10,291,663
1942	9,152,490	2,062,897	1,223,620	2,441,236	2,500,215	875,975	1,014,426	8,644,315
1941	9,153,152	4,005,829	1,106,952	2,412,115	2,441,614	896,205	1,272,108	6,583,031

Courtesy, Union Bag & Paper Corporation

Fig. 53

1946 DISTRIBUTION OF INCOME

THE COMPANY RECEIVED



. . . from sales of tires and other products.	$616,508,162
. . . from interest, royalties and other sources.	4,108,053
TOTAL	$620,616,215

OF THIS AMOUNT THE COMPANY PAID OUT OR SET ASIDE . . . .

45.5%
FOR MATERIALS

To purchase rubber, fabrics, chemicals, fittings and other ingredients of Goodyear products.

27.9%
FOR PAYROLLS

Salaries and wages of the 72,000 men and women, exclusive of executive officers, who build and sell Goodyear products.

8.3%
FOR TAXES

Includes federal income, state and local taxes, duties and social security taxes. (Excludes excise taxes)

Courtesy, The Goodyear Tire & Rubber Company

Fig. 54

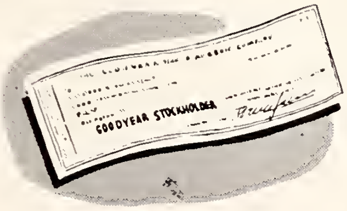
8.2%
FOR OPERATING EXPENSES

Covers freight, rent on stores and branches, travel, interest, fuel, water, telephone, advertising and similar overhead.

1.8%
FOR DEPRECIATION

To take care of wear and tear on plants and equipment, and to replace machinery as it wears out or becomes obsolete.

1.8%
FOR DIVIDENDS



Cash paid to approximately 45,000 shareholders whose investment in Goodyear securities has provided properties, plants and machines that make production possible.

.1%
FOR EXECUTIVE COMPENSATION

Less than one-eighth of a cent out of every dollar covered total compensation of executive officers who direct the company.

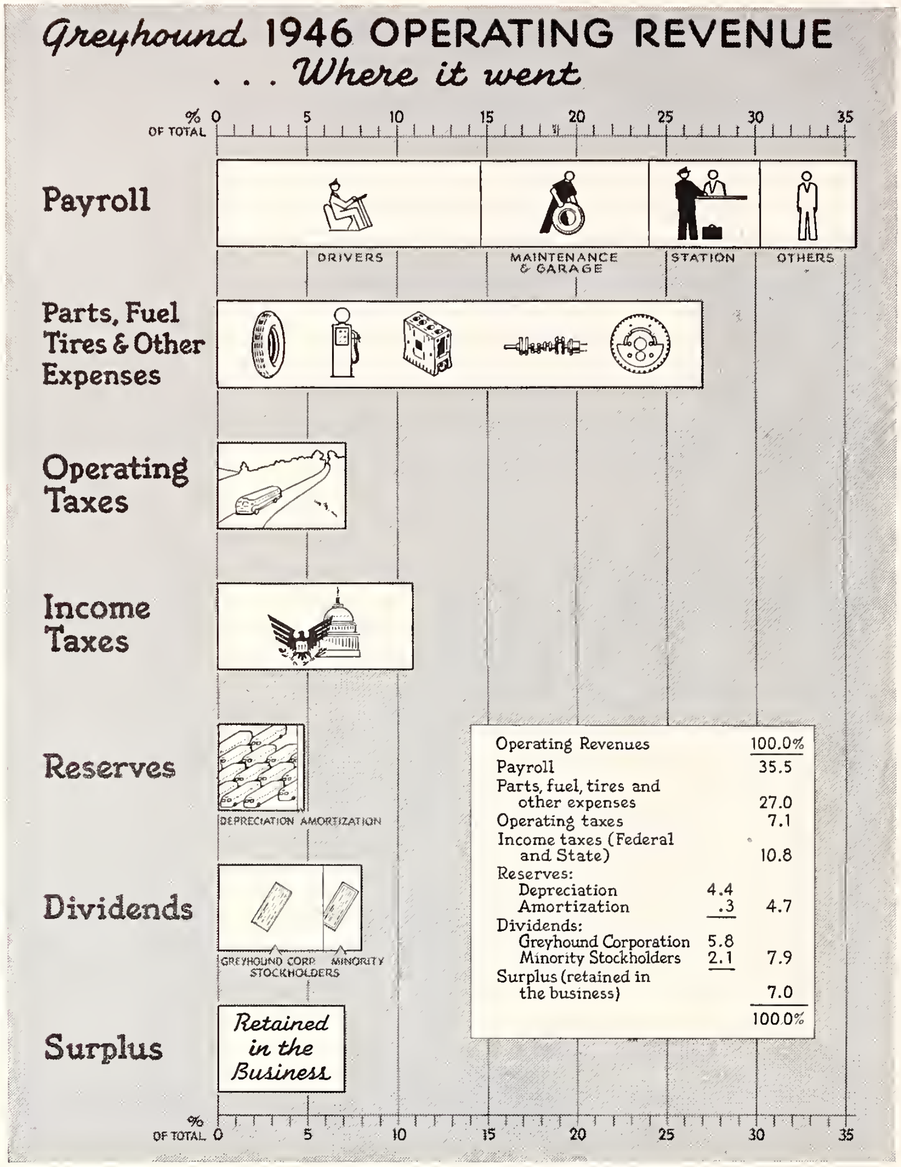
6.4%
FOR RESERVE

The balance, amounting to 6.4 cents of each income dollar, was left in the business to meet contingencies, and opportunities to keep Goodyear growing.

100.0%
TOTAL

Courtesy, The Goodyear Tire & Rubber Company

Fig. 54 Continued

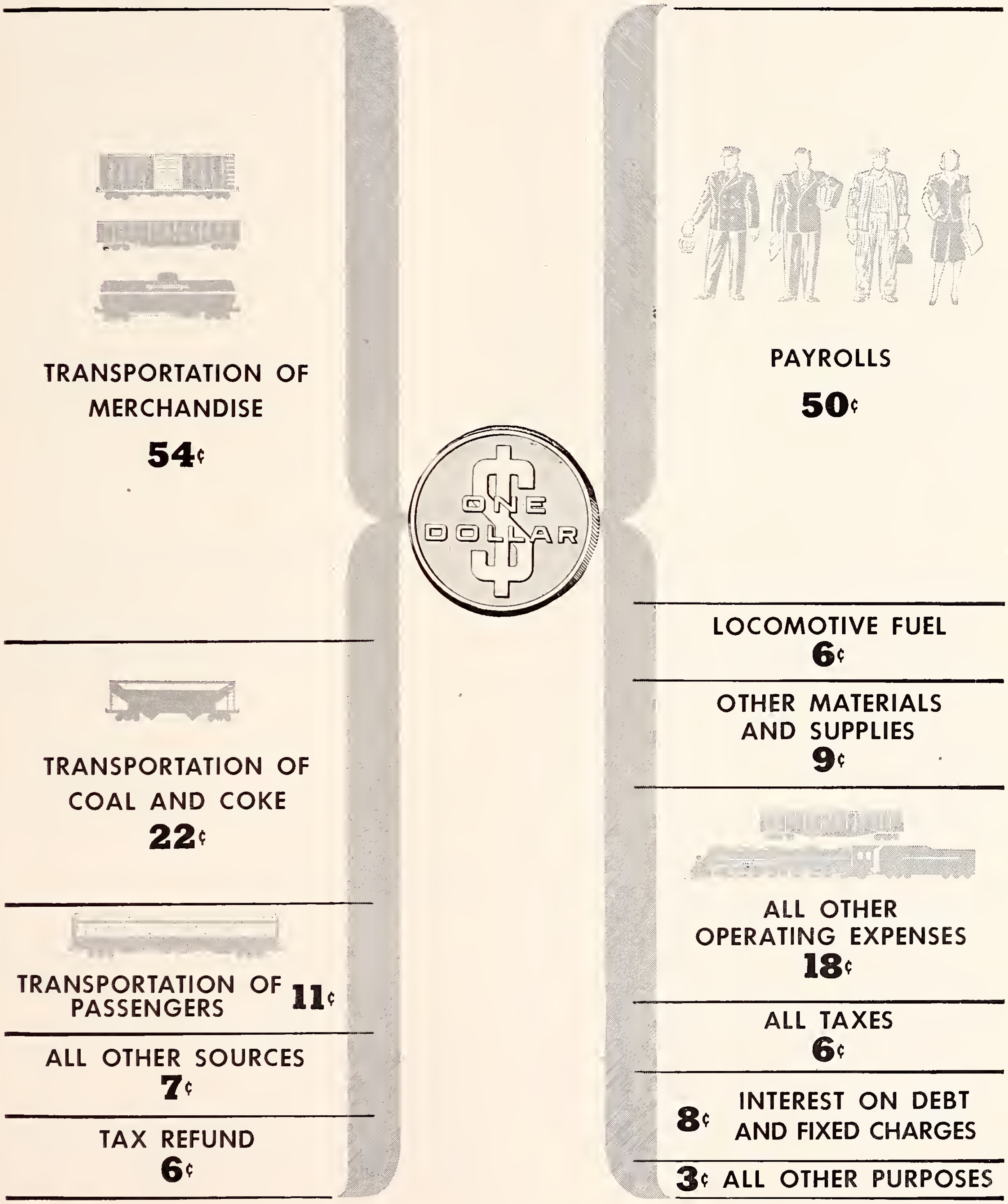


Operating Revenues		100.0%
Payroll		35.5
Parts, fuel, tires and other expenses		27.0
Operating taxes		7.1
Income taxes (Federal and State)		10.8
Reserves:		
Depreciation	4.4	
Amortization	.3	4.7
Dividends:		
Greyhound Corporation	5.8	
Minority Stockholders	2.1	7.9
Surplus (retained in the business)		7.0
		100.0%

Courtesy, The Greyhound Corporation

Fig. 55

OUR INCOME DOLLAR 1946



IT CAME FROM

TRANSPORTATION OF MERCHANDISE **54¢**

TRANSPORTATION OF COAL AND COKE **22¢**

TRANSPORTATION OF PASSENGERS **11¢**

ALL OTHER SOURCES **7¢**

TAX REFUND **6¢**

WAS DISBURSED FOR

PAYROLLS **50¢**

LOCOMOTIVE FUEL **6¢**

OTHER MATERIALS AND SUPPLIES **9¢**

ALL OTHER OPERATING EXPENSES **18¢**

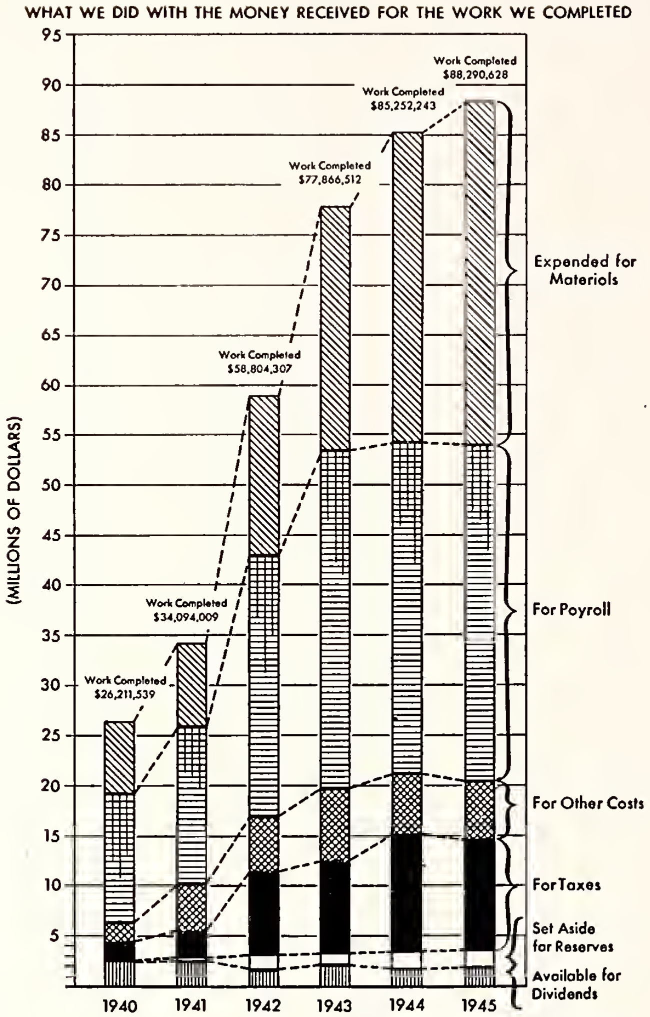
ALL TAXES **6¢**

8¢ INTEREST ON DEBT AND FIXED CHARGES

3¢ ALL OTHER PURPOSES

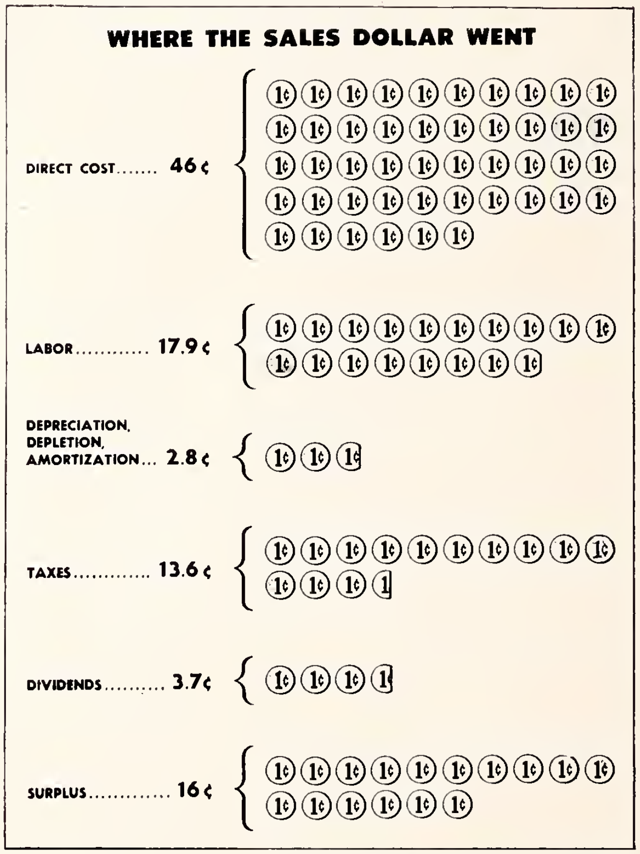
Courtesy, The Baltimore & Ohio Company

Fig. 56



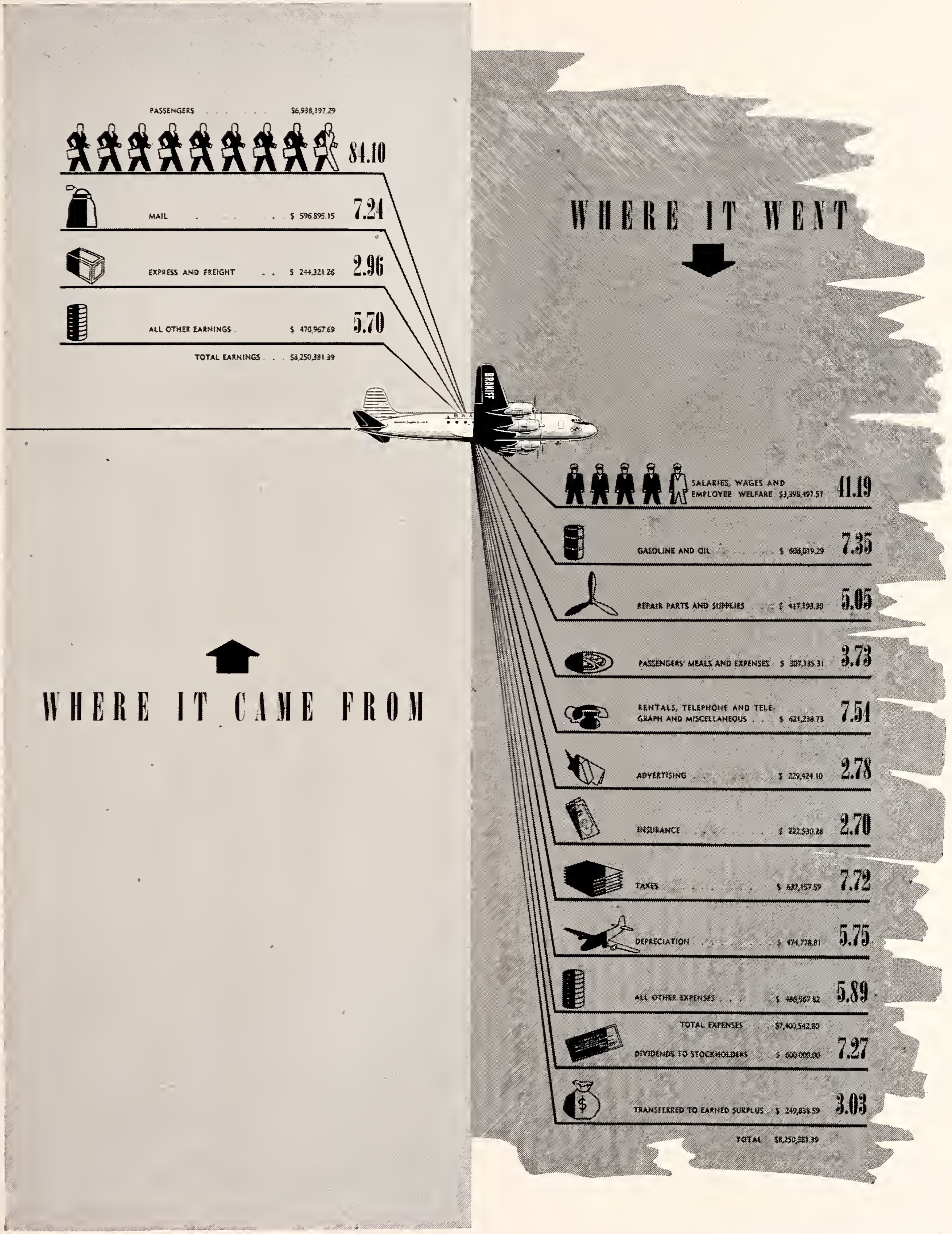
Courtesy, Otis Elevator Company

Fig. 57



Courtesy, National Container Corporation

Fig. 58



Courtesy, Braniff Airways, Incorporated

Fig. 59

REPORTING ON EARNINGS AND DIVIDENDS

Business has become aware that the public vastly overestimates corporate profits. It is clear that some of this impression has been created by the publicity given to corporate profits *before* taxes, by labor organizations.[1] The corporation, in its own reporting, must do all it can to give the facts about profits clearly and to prevent misinterpretation. The following checklist should be used in considering possible misunderstandings of data on earnings.

CHECKLIST FOR TREATMENT OF EARNINGS

Do the words "profits" and "earnings," as used in the commentary, mean net profits after all charges, including taxes, have been deducted? They should.

Does the report help break down the misconception that stockholders and top management are paid more than workers?

Does it reflect management's concept of profits?

Does the report show the relation of profits to benefits going to employees, management, consumer, community and stockholder?

Have aggregate profits been presented? Failure to include this figure would arouse suspicion.

Has the dollar-sum of net profit been presented as a percentage for each dollar of sales? The percentage figure gives a more correct impression.

Would a better understanding of profits be obtained if net profits were shown as a percentage of invested capital? As a percentage of total assets?

Are profits per share of stock indicated? Stockholders are especially interested in this figure in comparison with previous years.

Is an explanation given of the increase or decrease in profits? Of losses?

Has the tax story been told in relation to profits? See page 153.

Are there special items affecting net profit that are not likely to recur? For example, special tax-credits or refunds, purchase and sale of operating subsidiaries. If so, explain them.

Have there been any changes in accounting procedure that affect the net-profits figure? If so, explain them.

What explanation shall be given of the effect of the changing value of the dollar upon the amount of apparent profits? Accounting results are expressed in terms of dollars as though the dollar had a stable value. Without an increase in productivity of the company, the business may not have progressed an inch compared with an earlier period, in spite of higher net income. The average reader of the annual report knows that a 50% increase in his wages, compared with an earlier period, is no increase at all if the cost of living has gone up 50% in the same period. But does he apply this simple principle of economics to the affairs of the company? Probably not. Nor have companies generally attempted to deal in their annual reports with this accountancy limitation, except in reporting the dollar volume of sales. In that respect, some companies have shown sales in units of products and have given information on fluctuations in prices of the products sold. They explain in this way that an increase in the volume of sales may be partly or wholly due to price increases, and may not be the result of increased productivity. See page 61. See also Fig. 64, page 98.

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[1] See "The Profit Delusion," in *Trusts and Estates,* May 1945, in which several charts that distort the story of corporate profits are reproduced from labor publications.

CHECKLIST FOR COMMENTS ON DIVIDENDS

The following checklist can be used for points to cover in reporting on dividends:

Amount distributed to stockholders.
Amount retained in the business. Why was it withheld?
Changes in dividend policies, if any.
Explanation of stock dividends paid during the year; why such a distribution was made; how the dividend affected capital and surplus.
Comment on arrears in dividends on preferred stock, if any; when payment may be expected.
If dividends exceeded current earnings, explain how this was possible.
In what form is the amount that has been retained in the business year after year?

IDEAS FOR CHARTS AND GRAPHS

A graphic presentation of profits may show the following information:

1. Net profits over a period of years.
2. Profits before and after taxes over a period of years.
3. Distribution of earnings over a period of years:
    (a) Before taxes: showing taxes; dividends; amount retained in the business.
    (b) After taxes: showing dividends; amount retained in the business.
4. Trend of net earnings, compared with dividends over a period of years. In such charts the amount of the year's profits left in the business is clearly visible.
5. Trend of operating revenue compared with trend of operating and maintenance expenses and net income.
6. Trend of company's earnings compared with trend of earnings of a comparable group of companies. See page 210.
7. Net profits over a period of years showing shrinkage after adjustment for changes in the purchasing power of the dollar.
8. Trend of net profits in relation to net sales.
9. Ratio of net profit to net sales for a period of years.
10. Profit per dollar of sales. This is usually depicted also in the "income and outgo" charts discussed at page 71.
11. Earnings per share of stock over a period of years, compared with:
    (a) Dividends per share.
    (b) Profit on each dollar of sales.
    (c) Earnings retained in the business.
    (d) Taxes paid per share.
12. Rate of return on invested capital, or ratio of net profit to balance-sheet net worth.
13. Net earnings from domestic and foreign sources.
14. Dividends per share of common stock.
15. Payrolls and earnings:
    (a) Net profits compared with employees' compensation.
    (b) Dividends compared with employees' compensation.

See pages 96 et seq. for examples of earnings charts. See page 155 for charts showing profits before and after taxes.

IDEAS FOR STATISTICAL DATA

Records of sales, earnings and dividends over a period of years are usually presented in the president's letter or in a separate statistical portion of the annual report. The examples given below show the variety of ways in which the figures may be presented.

DIVIDENDS PAID TO STOCKHOLDERS

Year	—— Company	Per Share	Minority Interest in Subsidiaries

TEN-YEAR RECORD OF DIVIDENDS PAID

	Cash		Stock
Year	Cur.	Extra (% par)	

	19—	19—
Earnings per share, common stock	$	$
Dividends per share, common stock	$	$

REPORTING ON EARNINGS AND DIVIDENDS

Year	Profit Before Depletion and Depreciation		Provision for Depletion and Depreciation			Net Profit		
	Amount	Per Sh.	Amount	%	Per Sh.	Amount	%	Per Sh.

STATEMENT OF DIVIDENDS PAID

From Date of Incorporation May 20, 19— to Dec. 31, 19—

Date Paid	Dividend No.	Rate	Paid Stockholders

COMPARATIVE SALES—TAXES—INCOME—DIVIDENDS

FISCAL YEAR	SALES	FEDERAL TAXES ON INCOME	NET INCOME AFTER TAXES		DIVIDENDS		AMOUNT RETAINED IN THE BUSINESS
			Amount	% of Sales	Amount	% of Net Income	

[Left Page]

FISCAL YEAR ENDED JUNE 30	NET SALES	NET INCOME BEFORE TAXES ON INCOME	NET INCOME AFTER TAXES ON INCOME	NET INCOME PER SHARE OF PREFERRED STOCK	NET INCOME AVAILABLE FOR COMMON STOCK	
					TOTAL	PER SHARE

[Right Page]

DIVIDENDS PAID			CURRENT ASSETS	CURRENT LIABILITIES	WORKING CAPITAL	NET FIXED ASSETS
PREFERRED STOCK	COMMON STOCK	TOTAL				

RECORD OF SALES, EARNINGS, AND DIVIDENDS

For Past Ten Years

Sales	Net Earnings	Earnings Per Share Common Stock	Shares Outstanding		Dividends		Number of Stores
			Common	Preferred	Common	Preferred	

SUMMARY OF EARNINGS, DIVIDENDS AND NET WORTH

Year	Sales and Other Revenues	Income Before Federal Income Taxes	Federal Income Taxes	Net Income	Preferred Dividends	Available for Common Dividends	Per Share of Common Stock		Net Worth
							Earnings	Dividends	

COMPARATIVE SALES AND NET EARNINGS

Fiscal Year	No. of Stores	Sales for Year	Net Earnings Per Share	Dividend Per Share	Par Value

COMPARISON OF SALES, EARNINGS, AND SURPLUS

Fiscal Year	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Dividends	Earned Surplus (End of Year)	Book Value per Common Share

TWENTY-YEAR RECORD OF SALES AND EARNINGS

Year	Net Sales	Income Before Federal Taxes	Federal Taxes	Net Earnings	Income Available for Common	Earnings	Dividends
	Thousands of Dollars					Per Common Share	

OPERATIONS

For comparative purposes, the sales and profits for the fiscal years ended December 31, 19— and 19— are shown as follows:

	Year Ended December 31, 19—	19—	Increase *Decrease*
Net Sales	$	$	$
Net Profit after depreciation, all special deductions, and provision for Federal and other taxes	$	$	
Earnings per Share of Common Stock in hands of public	$	$	$

SOME ITEMS OF IMPORTANCE TO STOCKHOLDERS STATED PER SHARE

Computed on —— shares outstanding December 31, 19—

	19—	19—	19—	19—	19—	Average 1941–1945 War Years	Average 1936–1940 Pre-War Years
Federal Income Taxes Profits after Taxes							
Set Aside for Post-War Profits after "Set Aside"							
Dividends Paid Retained in the Business							

STORES, SALES AND EARNINGS——19— - 19—

Stores at Year-end	Pairs Sold Retail	Pairs per Store	Total Sales at Retail	Factory Sales	Combined Sales	Wages and Compensation	Combined Income Before Federal I & E P Taxes	Federal Income and Excess Profits Taxes	Combined Earnings after Taxes	Earnings per Common Share

EXCERPTS FROM COMMENTS ON PROFITS

To help remove the prevalent misunderstanding of what corporations earn, the commentary should do more than show the total net profit for the year and the net profit per share of stock outstanding. Some examples of helpful comments are given below. The examples of how profits have been explained in reports to employees, given at pages 265 et seq., can be used effectively in reports to stockholders.

Earnings Are Not Idle Cash

Right here I would refer to the Balance Sheet and ask all stockholders, particularly those stockholders who are employees of the company or one of its subsidiaries—What are earnings anyway? Right now there is a great hue and cry about them. On one hand, organized labor wants a huge slice of them. On the other, the government is threatening to sorely penalize those companies who do not hand over at least seventy per cent of them to the stockholders. Both demands arise from an utterly mistaken idea that earnings are cash lying around in a bank just itching to be taken for a ride.

It takes money to do business. The more business we do the more money it takes. In 19— we sold more goods than ever before—and used more money. In the first place there were generous wage increases during the year. We worked more hours and those hours cost more per hour. Not only did we use more yards, pieces, and tons of various materials, but they cost a lot more per yard, per piece, per ton. Furthermore, no such volume could have been produced if a lot of new machinery, tools and equipment had not been bought and installed, to say nothing of replacements. Very few companies had the permanent capital necessary to swing such a volume of business as was seen in 19—. Management had but three courses to follow: to borrow heavily in one form or another, to use earnings, or to do both. The latter is what we did.

Earnings buy the tools men use, the materials with which they work, the very implements by which, with their skill, they earn their living. And our so-called "Capital" is nothing but our and someone else's earnings put in our custody for our use only because those investors believed they would get a return commensurate with the risk involved.

Not only did we use a large share of our earnings to increase production, but we borrowed an additional three million dollars which some day must be repaid. That's what happened to those so-called earnings.

Wages can be paid only from production and production only! If there is no production, there are no wages to be paid. And there is no production in one plant when the public (because of cost or otherwise) prefers to spend its money for the goods produced in someone else's plant. There is an old saying: "What goes up must come down, upon your head or on the ground." To *borrow* all funds needed to an extent which would enable us and most companies to pay out dividends upwards of seventy per cent of so-called earnings in times like the present would guarantee inevitable failure.

So look at the financial statements which show the tremendous increase in inventories, receivables (what our customers owed us at the year end), tools, machinery and equipment, and taxes yet to be paid. They show the final results of the combined efforts of labor and management in 19—. They show what we have to work with as we start 19—. Fortunately, we ended 19— in a strong position to meet the unknown future. I know of no better insurance for all concerned. [*Simmons Company*]

The public's misunderstanding of profits

Much of our present difficulty grows out of an obvious misunderstanding of industrial profits. Recent public opinion polls indicate that large numbers of persons believe that industry's profits range from 18 per cent of sales volume in peacetime to 30 per cent or more in war—that shareholders receive from an enterprise an amount equivalent to that paid the workers.

How erroneous these beliefs are is indicated by reports of the War Production Board, based on Treasury Department Statistics of Income, which show that all manufacturing and mining corporations in 19—, the last year for which figures are available, had profits, after taxes, equal to 3.84 per cent of their sales volume—that is slightly more than 3¾ cents out of each dollar received for commodities and services. In 19—, a peacetime year, the comparable figure was 5.14 per cent. For Sun Oil Company, on the basis of our consolidated reports, the Company's profit or net earnings in the war years 19— to 19—, inclusive, was 2.8 per cent of gross operating income, compared with 5.6 per cent for the normally accepted base period of 19— through 19—.

In industry, generally speaking, after bills for supplies, transportation and services are paid, after amortization and depletion charges, and after the tax collector takes his cut, workers receive between 85 to 90 per cent of what is left—that is to say, that workers in salaries or wages receive seven to nine times as much as the combined amount paid shareholders and plowed back into the business. This is a far cry from the prevalent belief that the shareholders are on any 50-50 basis with the workers! [*Sun Oil Company*]

How new profitable ideas become common property under private enterprise

"Using everything but the squeal," isn't just a superficial characterization of this industry. It reflects one of the outstanding contributions of private enterprise operating under constant pressure of the competitive search for profits. Its simple and valuable lesson bears repeating at this time when the nation has before it the problem of determining what kind of economy will best serve the national interest in the post-war period. The everlasting search for new products, new methods, new markets, has as its objective the attainment of greater profits, but it also has an even more important result. The innovator cannot long retain the benefit for himself. Competition sees to it that new ideas are soon adopted by others. Last year's profitable new idea becomes common, industry-wide practice this year; and what were last year's profits to the innovator are this year a net gain to the supplier of raw materials or to the ultimate consumer." [*Swift & Company*]

Explaining a temporary, favorable tax situation

EARNINGS

Since "the tax carry-back refund" previously mentioned represents a reduction in the Company's tax liability for the year 19— only, and is not a recurring item, its inclusion in the appraisal of the financial results of 19— operations would produce a distorted and misleading picture, not only of the year under report, but also of the grave earnings situation which confronts the Company as it enters 19—.

Excluding the effect of the "tax carry-back refund," the 19— ratio of Total Income to the Company's Average Capital Obligations and Surplus was 3.29 per cent, the lowest in more than thirty-five years, and compares with 5.13 per cent in 19—. (Including the effect of "tax carry-back refund," this 19— ratio was 4.54 per cent.)

Excluding the effect of "tax carry-back refund," earnings per share of capital stock were $3.63 in 19—, which is the lowest since 19— and compares with $6.59 in 19—. (Including the effect of "tax carry-back refund," earnings per share of capital stock in 19— were $5.68.)

In view of the foregoing, it is obvious that the rate of the Company's earnings must be improved if it is to maintain its credit on a sound basis and attract new capital at reasonable rates. Likewise, since pay rolls constitute such a large percentage of total expenses in the telephone industry, the Company must obtain added revenues to meet the requirements of its existing wage structures.

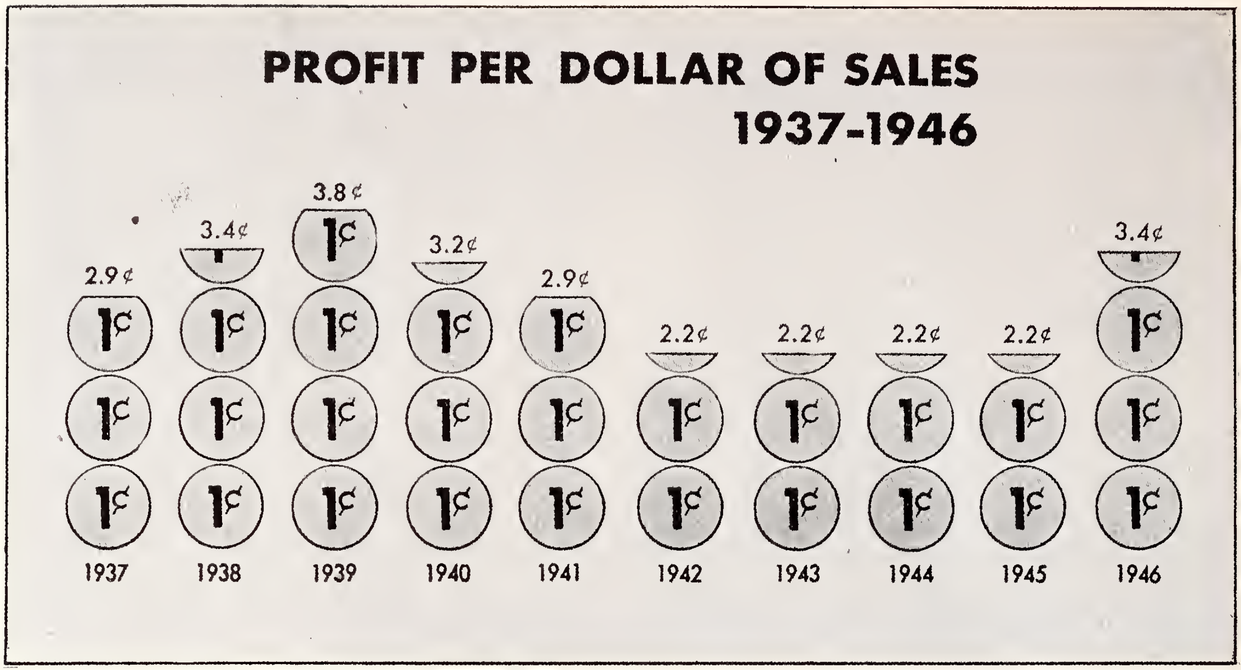
The urgency of the need for an immediate improvement in the Company's earnings level becomes clearly apparent when consideration is given the fact that, within the immediate future, the Company must obtain large sums of new capital to finance its current program of growth and expansion, which, in turn, is urgently needed to meet the present and rapidly expanding demands of the South for telephone service. In this connection, it should also be borne in mind that the Company cannot wait for periods of favorable construction cost levels before actively undertaking the expansion of its plant and facilities, but must be governed by the demands of the people in the territory it serves.

Accordingly, application to the appropriate regulatory body for increased rates in each of the nine states in which the Company operates either has been made during the latter part of 19— and the early part of 19—, or will be made in the immediate future months. The status of these matters is more fully described under RATES on Page 11 of this report. [*Southern Bell Telephone & Telegraph Company*]

Explaining a loss item

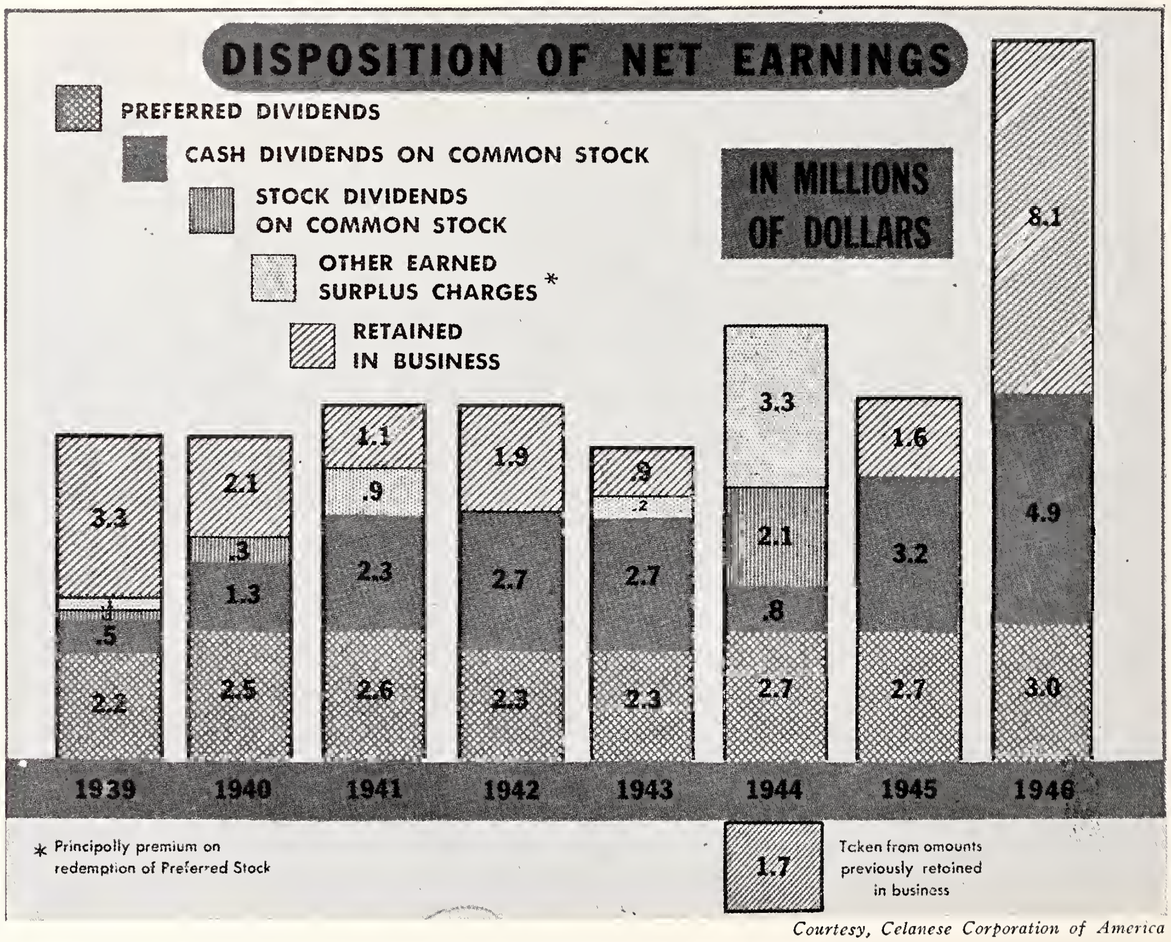
Prior to 19—, —— Corporation practically completed each year its drive of pulpwood down the —— River to its destination at ——. Beginning in 19— and continuing through 19— and 19—, large quantities of pulpwood were unavoidably left back in the tributaries and upper reaches of the —— River as a result of low water, shortage of manpower, and increased distances over which the wood was driven, some of the wood traveling 200 to 300 miles in the water before reaching its destination. In 19— a special reserve was set up to cover loss through sinkage or other causes, and in 19— this reserve was increased. The amount of the loss could not be determined until the wood could be driven out of the tributaries into the main river, and this was not possible until 19— when, with better labor and water conditions for the drive, a much cleaner drive was attained than in the preceding years. Upon completion of a survey and checkup of wood on hand, it was found that the loss in the wood left back during 19— to 19— inclusive was equivalent to 7% of the total quantity driven during those years.

As a result of the shrinkage in operating profit, and of charging a part of the pulpwood loss against the earnings of 19—, the Corporation's net profit before income taxes was $1,016,381 smaller than in 19—. This decrease was partly offset by the reduction in income taxes so that the net profit for the year, $422,735, was $361,381 less than in 19—.



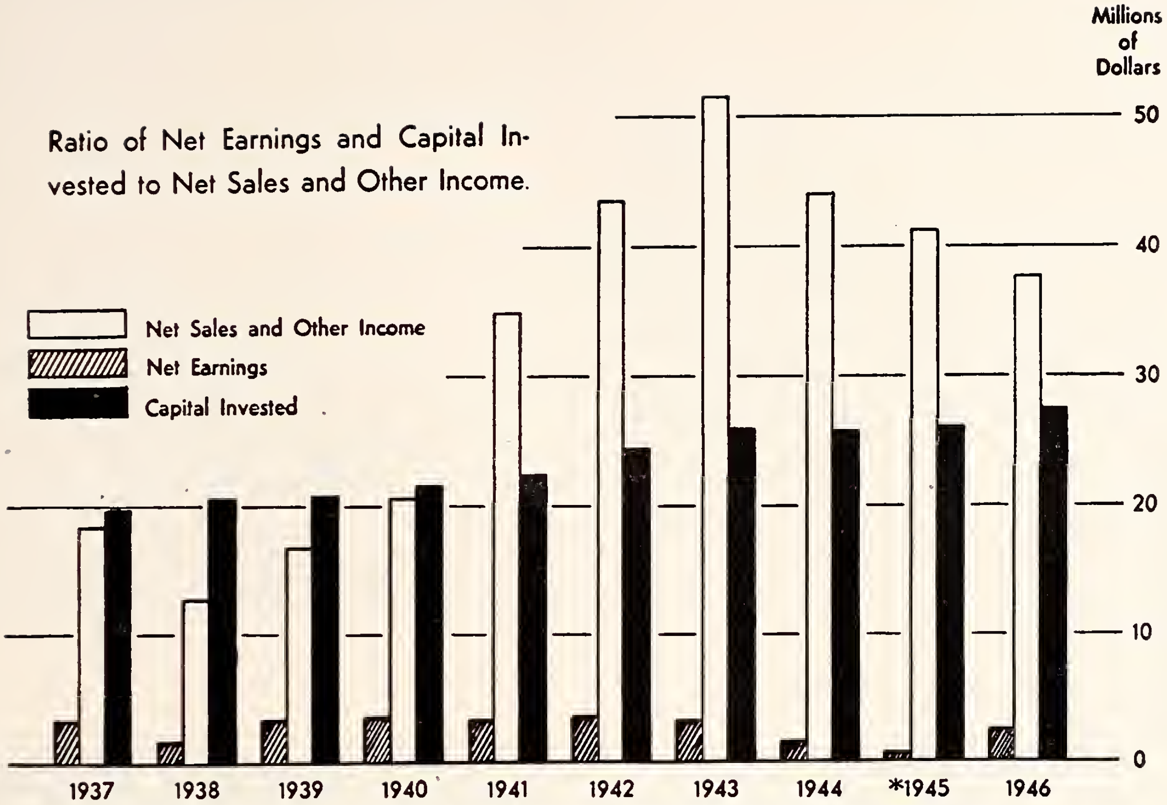
Courtesy, National Dairy Products Corporation

Fig. 60



Courtesy, Celanese Corporation of America

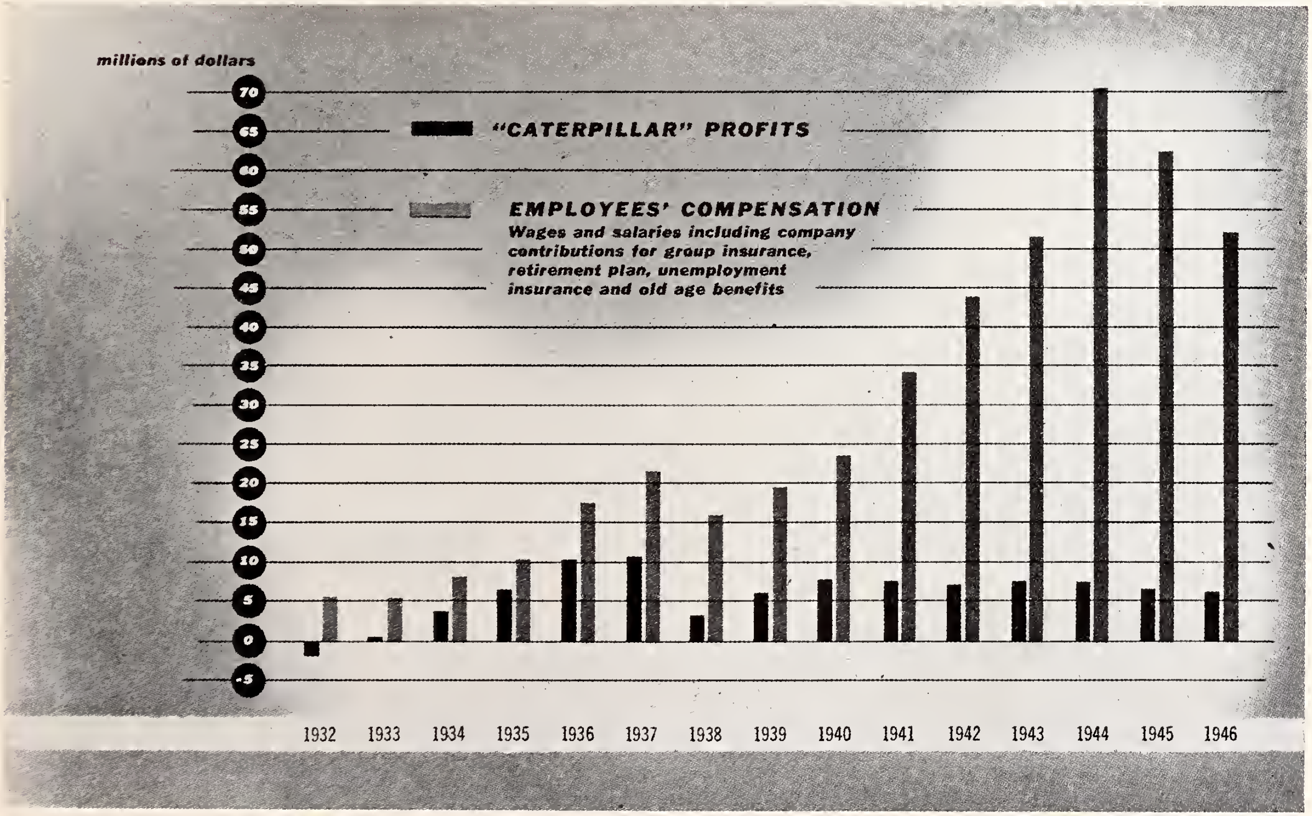
Fig. 61



* Exclusive of $900,000 estimated refund of Federal excess profits taxes under "carry back" provision of Revenue Act

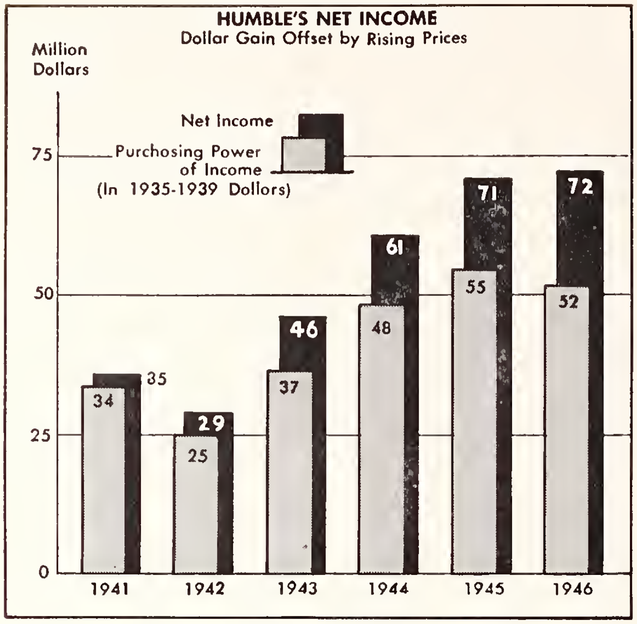
Courtesy, The Carborundum Company

Fig. 62



Courtesy, Caterpillar Tractor Co.

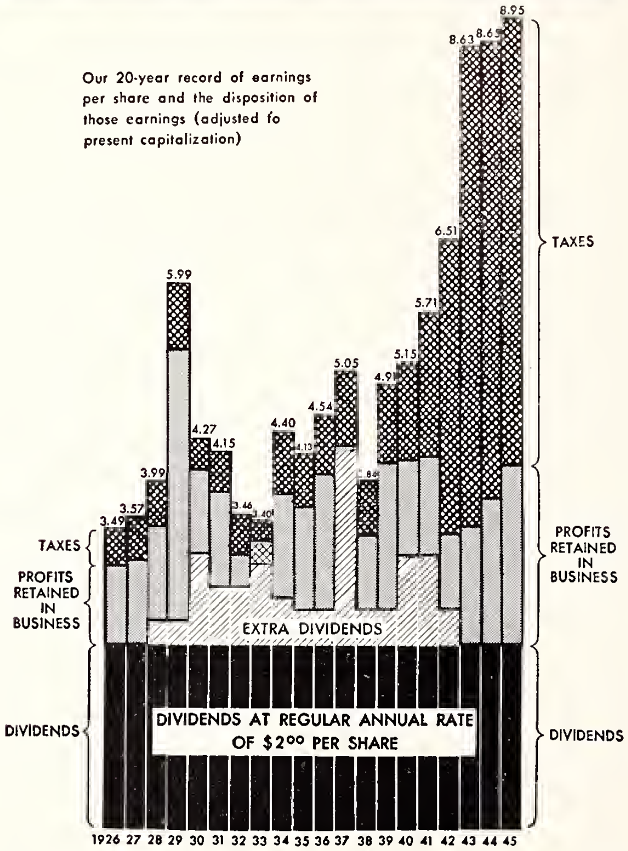
Fig. 63



Courtesy, Humble Oil Re.ning Company

Fig. 64

CHART VII STABILITY OF EARNING POWER



Vick became a publicly owned corporation in 1926. Since then—through good years and bad—it has unfailingly paid the regular dividend—with occasional extras. Earnings, per share, have mounted, but—during war years—we paid high tribute in taxes. Stability of Earning Power has been accomplished in the past. To perpetuate that Stability is our present objective.

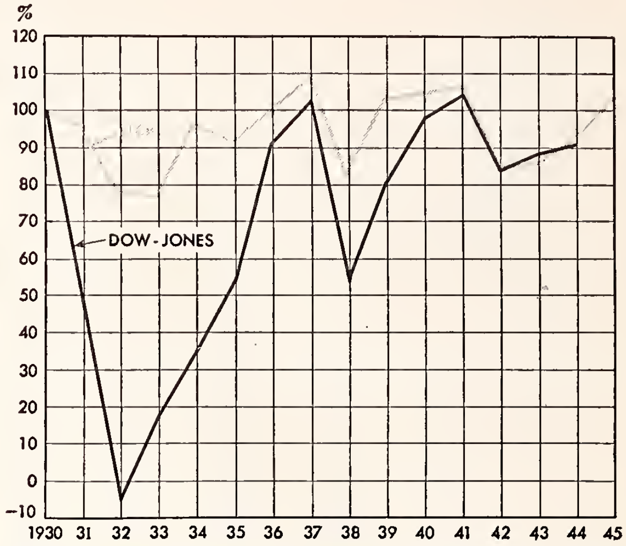
Courtesy, Vick Chemical Company

Fig. 65

CHART VIII VICK VS. THE DOW-JONES

All things are relative; and therefore we present this chart—starting in 1930—the last year before we commenced our campaign to secure product diversification.

Hereon we show Vick's earnings in contrast with a theoretical share composed from the best-known American stock average—the Dow-Jones Industrial Average.*



Throughout the 15 years to date, Vick's earnings compare more than favorably with the earnings of this composite of industrial securities. War's excess profits taxes—to which Vick is particularly susceptible—have narrowed the margin of advantage in recent years. The record, however, indicates that—despite high taxes—Vick has done at least as well in good years and infinitely better in depression years.

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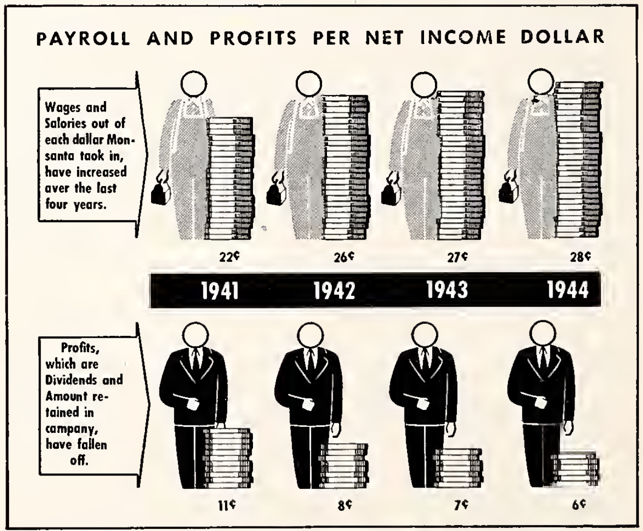
* Dow-Jones Industrial Average's earnings are the earnings of the thirty industrial companies comprising the group as reported for their respective fiscal years. Corresponding Vick years ended on June 30th of the years indicated.

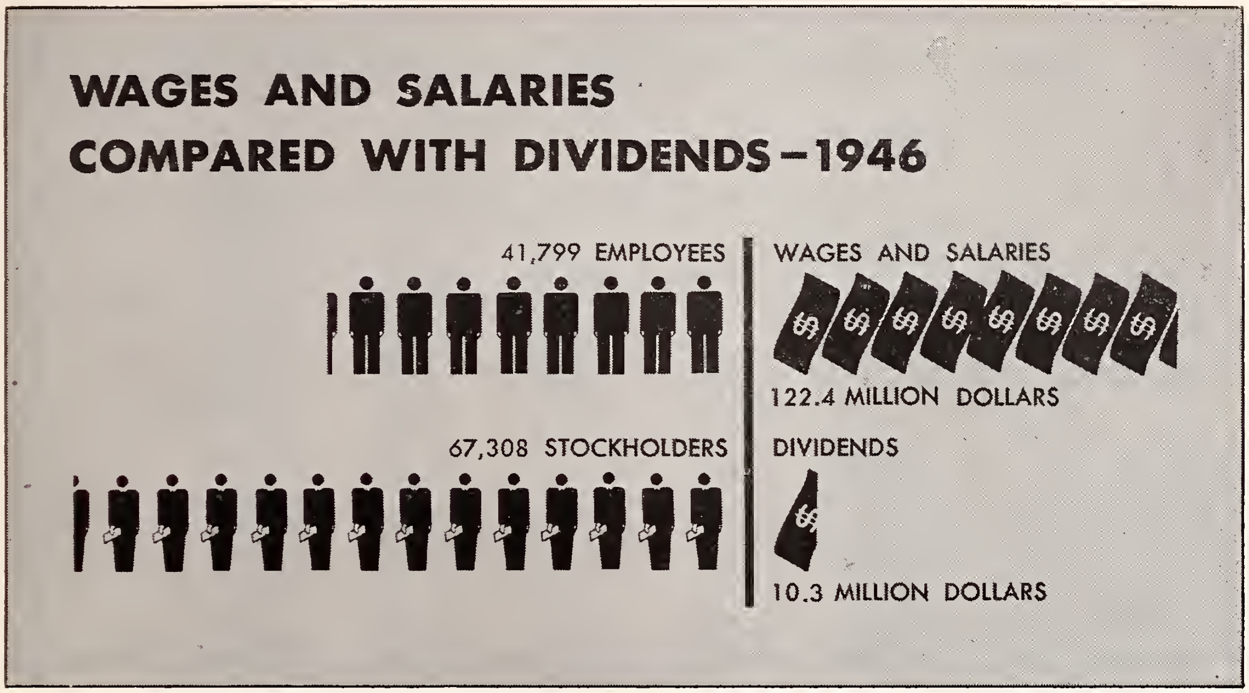
Courtesy, Vick Chemical Company

Fig. 66



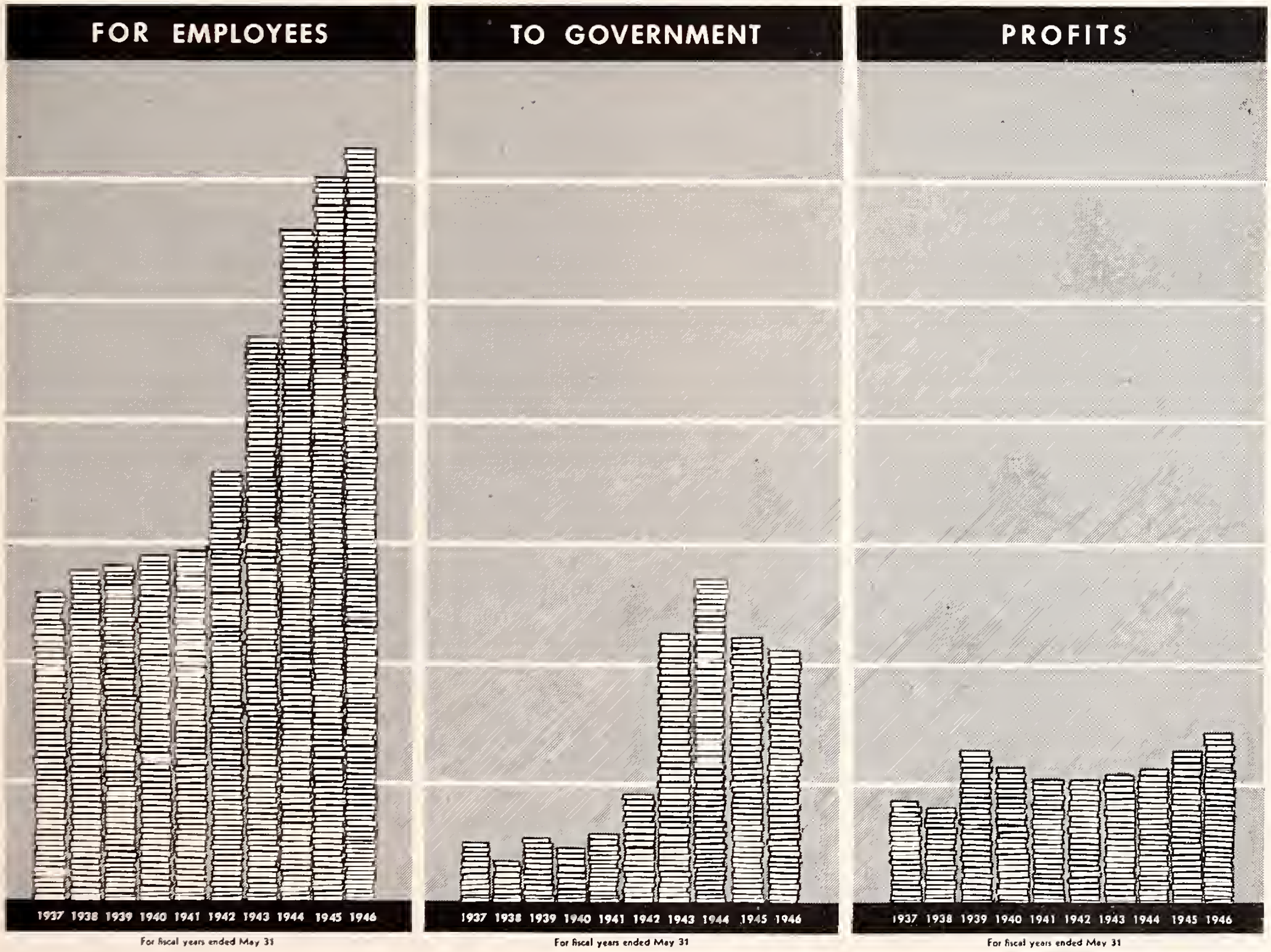
Courtesy, Monsanto Chemical Company

Fig. 67



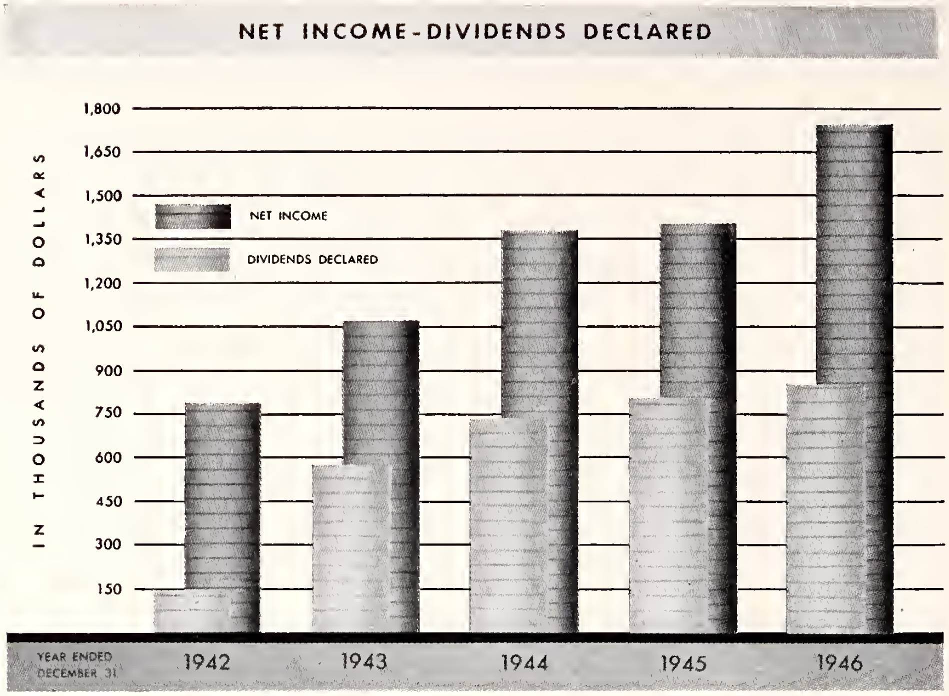
Courtesy, National Dairy Products Corporation

Fig. 68



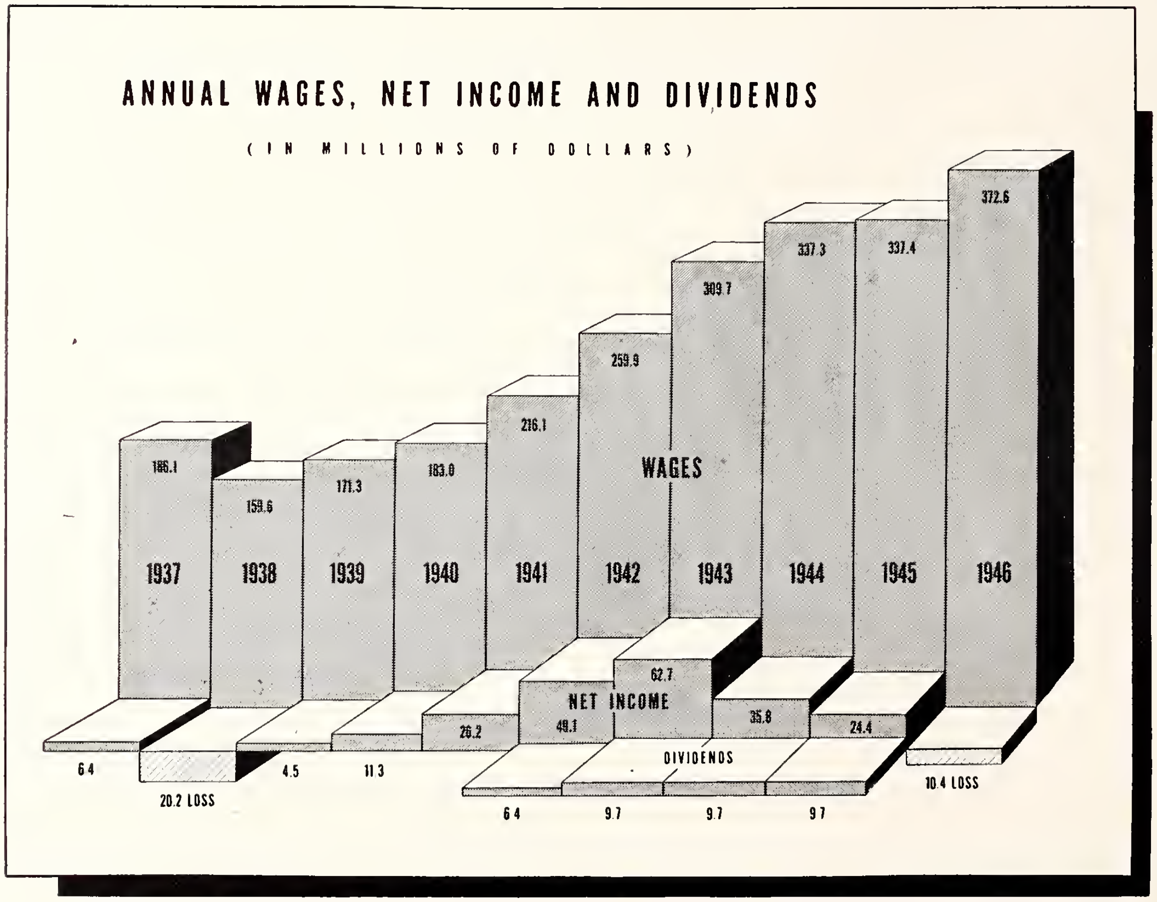
Courtesy, General Mills, Inc.

Fig. 69



Courtesy, The National Sugar Refining Company

Fig. 70

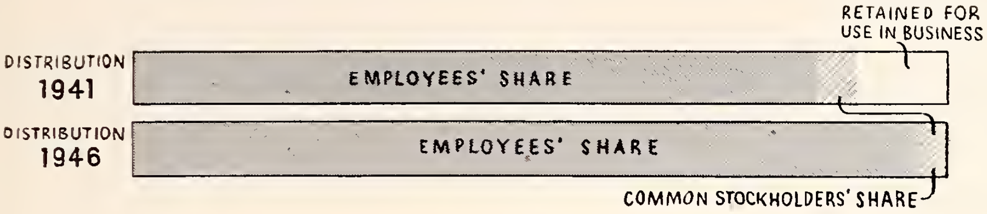


Courtesy, New York Central Railroad Company

Fig. 71

HOW INCOME* WAS SHARED

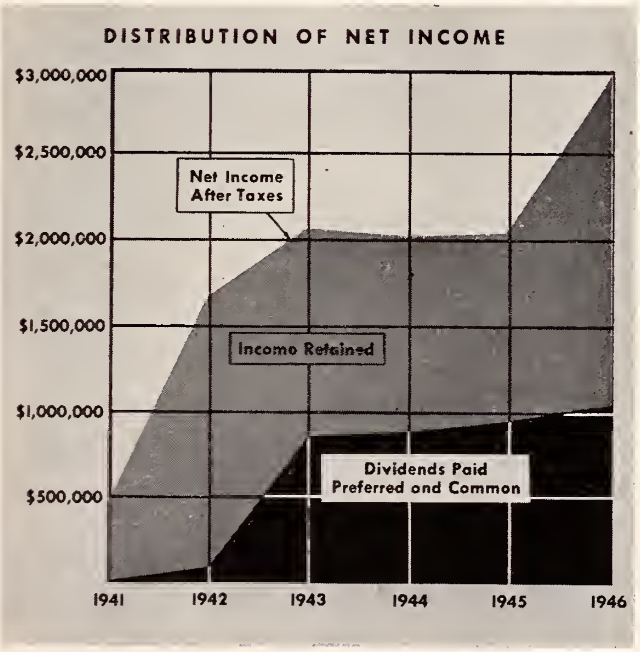
(1946 compared with 1941, the last peacetime year)



*After deductions for cost of materials, supplies, taxes and other expenses.

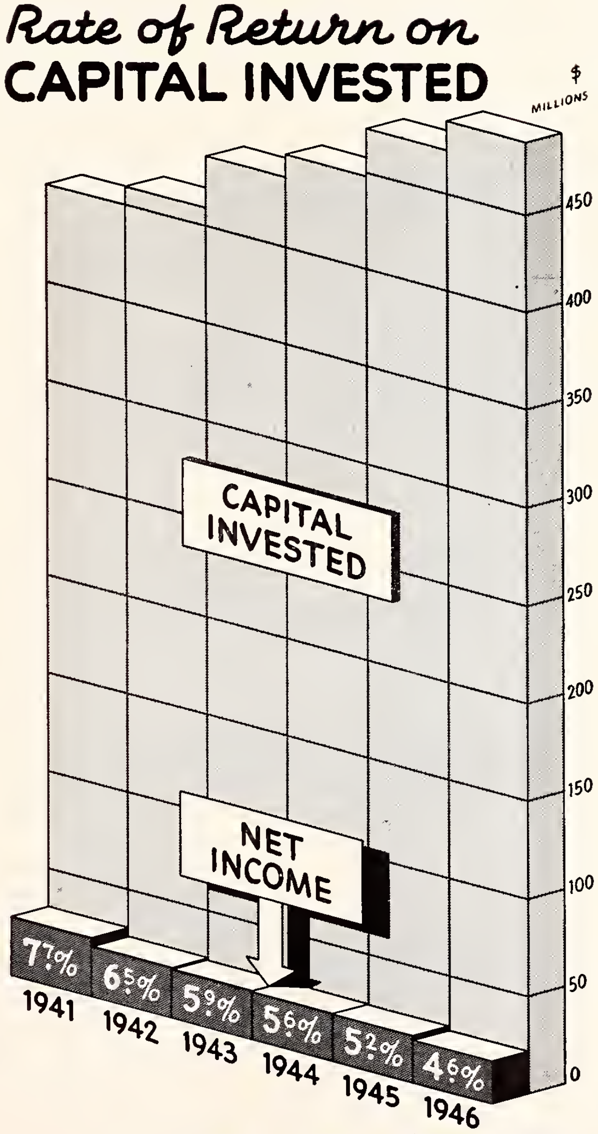
Courtesy, Copperweld Steel Company

Fig. 72



Courtesy, International Minerals & Chemical Corporation

Fig. 73



Courtesy, International Harvester Company

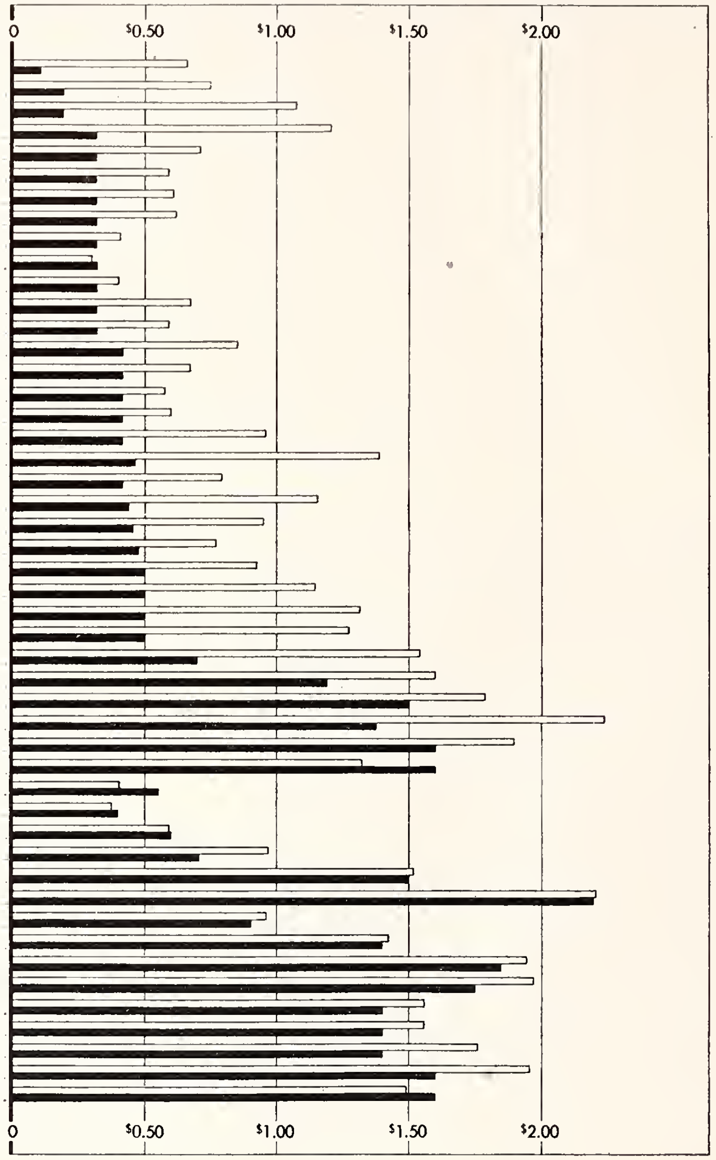
Fig. 74

GENERAL ELECTRIC COMPANY

48-YEAR RECORD OF EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Year	Earnings (a)	Dividends (b)
1899	$27.46	$4.50
1900	30.99	8.00
1901	44.80	8.00
1902	30.02	8.00
1903	17.76	8.00
1904	14.59	8.00
1905	15.17	8.00
1906	15.52	8.00
1907	10.17	8.00
1908	7.37	8.00
1909 (e)	9.96	8.00
1910	16.66	8.00
1911	14.55	8.00
1912	16.20	8.00
1913	12.88	8.00
1914	11.03	8.00
1915	11.56	8.00
1916	18.31	8.00
1917	26.50	9.00
1918	14.93	8.00
1919	20.93	8.00
1920	16.62	8.00
1921	12.92	8.00
1922	14.86	8.00
1923	18.40	8.00
1924	21.13	8.00
1925	20.49	8.00
1926 (c)	6.14	2.75
1927	6.41	4.75
1928	7.15	6.00
1929	8.97	5.50
1930 (c)	1.90	1.60
1931	1.33	1.60
1932	.41	.55
1933	.38	.40
1934	.59	.60
1935	.97	.70
1936	1.52	1.50
1937	2.21	2.20
1938	.96	.90
1939	1.43	1.40
1940	1.95	1.85
1941	1.98	1.75
1942	1.56	1.40
1943	1.56	1.40
1944	1.76	1.40
1945	1.96	1.60
1946	1.49	1.60

Earnings ☐ and Dividends ■ in Terms of Present Stock (c) (d)



(a) Based upon average number of shares outstanding. (b) Cash dividends declared. (c) Number of shares increased four for one in May, 1926 and again in January, 1930. (d) Adjusted for common stock dividends. (e) Eleven months.

The following dividends have been distributed in stock: 1902—66⅔% in common stock, to restore a 40% reduction made in 1898; 1912—30% in common stock; 1917—2% in common stock; 1918-1921 inclusive—4% annually in common stock; 1922-1925 inclusive—5% annually in special* stock; 1924—one share of Electric Bond and Share Securities Corporation stock; 1926—one dollar in special* stock; 1932—⅙ share of Radio Corporation of America common stock.

*Special stock, par value $10 a share, paying 6% annual dividend. Retired in 1935 at $11 a share and accrued dividend.

Courtesy, General Electric Company

Fig. 75

REPORTING ON FINANCIAL CONDITION

The commentary on financial condition usually consists of remarks about the balance sheet. It is frequently limited to an explanation of the company's working-capital position. However, since the balance sheet as a whole is studied to determine the company's financial position, this section includes a checklist for whatever portion of the balance sheet management chooses to comment upon in the narrative or in the balance-sheet notes.

It is good practice to introduce the remarks about balance-sheet items with an explanation of the policies followed by the company in stating the accounts. An example of such an introduction is given at page 119.

Comments on the income statement usually precede those on the balance sheet.

CHECKLIST FOR COMMENTARY ON FINANCIAL CONDITION

Current assets

(See also checklists for inventories and accounts receivable.)

- Amount compared with previous year.
- Explanation of any large increase or decrease.
- Why a large amount of cash must be carried.
- Any unusual items in the current assets.
- Market value of marketable securities.

Current liabilities

- Amount in comparison with previous year.
- Explanation of any large increase or decrease.
- Any unusual items in the current liabilities.

Working capital

- What happened to the working capital position during the year.
- Ratio of current assets to current liabilities compared with previous year. What the ratio means.
- Explanation of any increase or decrease in working capital.
- Explanation of improvement or falling off in the ratio.
- How increase in working capital compares with increase in sales.

Inventories

- Amount of inventories in comparison with previous year.
- Comparison of quantities with previous year.
- How inventories were taken.
- How inventories were valued (explanation of the method used).
- Any change in valuation method; effect in making comparison with earlier years.
- Changes in cost procedure as it affects inventory.
- Why inventory figures are high or low.
- Condition of inventories.
- What management is doing to correct the inventory situation, if correction is necessary.
- Inventory policy.
- Losses, if any, taken on inventories.
- Reserves created for protection against price declines.
- Inventories in relation to sales (how many weeks' sales are represented in inventories).

Accounts receivable

- Amount of accounts receivable in comparison with previous year.
- Explanation of any large increase or decrease.
- What amount represents loans to employees.
- Per cent of year's sales uncollected at the end of the year.

Average number of days' sales uncollected.
Reserve for doubtful accounts (how set up, adequacy, changes during the year).

Investments and funds

Major changes in holdings.
How holdings are valued.
Actual worth of investments in securities of subsidiaries.
What part represents securities that will be liquidated to pay taxes and other liabilities.
Special deposits and redemption fund.
Advances.
Investments in foreign subsidiaries (cost and current value).
Write-offs of investments.
Restorations of assets previously written off.

Patents, copyrights, goodwill and other intangibles

Changes in account during year.
Why changes were made.
Policy in regard to capitalizing patents, copyrights, trademarks and goodwill.
Amortization policy.

Property account

What properties make up the fixed assets.
Book value of properties, compared with previous year.
Age and efficiency of buildings, machines and equipment.
Replacement costs.
Amount expended for physical facilities, compared with previous year.
Expenditures on property by division, product or other unit.
Number and location of plants.
Facilities acquired by acquisition of control of other companies.
Why increase in facilities, if any, was necessary.
How improvements were financed.
What properties are under construction.
When properties under construction will be put into operation.
Where new facilities went into operation during the year.
Properties disposed of during the year.
How depreciation on plants was treated. See also checklist at page 73.
Plans for future construction.

Reserves

The following checklist should be applied to each reserve on the books of the company. (See also the checklist on depreciation, page 73.)

What is the nature of the reserve: Is it (1) a deduction from an asset, (2) an actual liability, (3) a contingent liability or provision for a contingent loss, (4) a part of the net worth?
Policy in establishing the reserve.
Changes made in the reserve during the year.
New reserves set up.

Surplus

What surplus represents.
Changes in earned surplus during the period, explained.
Changes in capital surplus during the year, explained.

Financing

Changes in capital stock structure—increase or decrease:
  (a) How accomplished.
  (b) Purpose.
  (c) Effect.
  (d) Disposition of treasury stock; how treated in the accounts.
Changes in long-term indebtedness—increase or decrease:
  (a) Old loans paid off.
  (b) New loans made: amount, how obtained, cost, burden of loan, purpose, use of funds.
  (c) Refinancing: reasons, costs, savings.
  (d) Reduction in outstanding long-term obligations.
Short-term borrowing—increase or decrease:
  (a) Old loans paid off.
  (b) New loans made: amount, how obtained, cost, purpose.
Acquisition of interests in other companies:
  (a) Name of acquired company.
  (b) Amount acquired and control.
  (c) Purpose of acquisition.
  (d) Result of acquisition.
Funding of Federal tax obligations by purchase of U. S. government securities.

Book value per share of stock

Book value per share at the end of the year.
How book value is determined.
How book value has increased over a period of years.

IDEAS FOR CHARTS AND GRAPHS

Ideas for graphic treatment of balance-sheet information are presented here in five groups:

Total assets—current assets:

1. Total assets at the end of each of a number of years.
2. Total current assets at the end of each of a number of years.
3. What per cent current assets were of net sales at the end of each of a number of years.
4. Trend of cash, receivables and inventories over a period of years.
5. Inventories at a particular time for a number of years.
6. Inventory analysis by months showing raw material, work in process and finished products and supplies.

Working capital:

1. Current assets and current liabilities at the end of the current year and the previous year —ratio of current assets to current liabilities.
2. Working capital at the end of each of a number of years.
3. Trend of working capital compared with trend of funded debt over a period of years.
4. Net worth and part represented by working capital, at the end of each of a number of years.
5. Working capital compared with senior capital —long term debt and preferred stock.

Fixed assets:

1. Book value of real estate, plant and equipment at the end of each of a number of years.
2. Net expenditures for plant additions during each of a number of years.
3. Amount of additions to property during each of a number of years, compared with depreciation and depletion for those years.
4. Relationship of plant and property investment to total debt, notes payable and bonds.
5. Number of freight and passenger cars purchased during the year.
6. Comparison of factory floor space for a number of years.

Capital structure—total investment—net worth:

1. Changes in total capitalization over a number of years.
2. Borrowed capital, preferred stock, common stock and surplus at the end of each of a number of years.
3. Amount of capital stock and surplus at the end of each of a number of years.
4. Net worth at the end of each of a number of years, and its composition.
5. Growth of surplus over a period of years. (See also earnings charts at pages 96 et seq.)
6. Trend of funded debt over a number of years.
7. Funded debt over a number of years compared with annual interest charges for each year.
8. How a general mortgage was changed from a third lien to a first lien.
9. Rate of return on invested capital. (See page 90.)
10. How much capital stockholders have invested per employee. (See page 160.)

Other facts:

1. Book value of common stock at the end of the year covered by the report.
2. Increase in book value of stock over a period of years.
3. Price trend of company shares.

See pages 122 et seq. for examples of charts showing financial condition.

IDEAS FOR STATISTICAL DATA

A company's financial position is indicated in its balance sheet. The annual report, however, may offer supplementary statistics relating to items in the balance sheet, for the following reasons: (1) To show the stockholders and prospective investors how competently management has been handling the invested capital, (2) to aid vendors who may use the report in granting credit to the company, (3) to explain the significance of certain items in the balance sheet.

The ideas for statistical data presented here fit into various parts of the annual report. Those dealing with working capital are best offered as a part of the narrative in the commentary on financial condition. Those that explain specific items in the balance sheet may be presented as balance-sheet schedules in the financial statements portion of the report, or in the commentary. Statistics of progress, made up of selected items from successive balance sheets and the profit-and-loss statement may also be offered to show the company's financial condition. Such tables stand on their own and can be included in any part of the report.

Three groups of ideas for statistics are therefore given below: (1) Those relating to current financial position, that is, working capital, (2) those explaining balance sheet items, (3) statistics of progress.

TABLES RELATING TO WORKING CAPITAL

COMPARISON OF WORKING CAPITAL

	December 31	
	19—	19—
Current assets:		
Cash	$	$
Receivables		
Inventories		
	$	$
Less—Advance collections and billings on account		
	$	$
Deduct—Current liabilities, less at December 31, 19—, $—— U. S. Treasury Notes, Tax Series		
Working capital	$	$
Ratio of current assets to current liabilities		

CHANGES IN WORKING CAPITAL

Additions to Working Capital:	
Profit for the year before providing for depreciation, for loss on —— Company of Ohio, and for other non-cash items	$
Borrowed on purchase money mortgage	
Salvage from disposal of fixed assets	
Realization in cash and other current assets from —— Company of Ohio in excess of advances during the year	
	$
Deductions from Working Capital:	
Additions to fixed assets	$
Sinking fund payment due June 1, 19—	
Provision for repayment of purchase money mortgage	
Cash dividends—60 cents a share	
Miscellaneous	
	$
Increase in working capital	$

Year	Current Assets	Current Liabilities	Current Ratio	Capital Expenditures

TABLES EXPLAINING BALANCE SHEET ITEMS

Cash

The complete story with respect to the cash funds received during the year and how they were used by the Company is set forth in the following schedule.

Funds Provided by Operations:		
Net Earnings	$	
Charges against net earnings not requiring cash outlay:		
Depreciation		
Sundry items relating to disposition and adjustment of plant and equipment		
Dividends		
Cash Funds Received—Net		$
Funds Required for Increased Volume and Expanding Activities:		
Increase in:		
Accounts receivable	$	
Inventories		
Plant and equipment		
Deferred charges and sundry items—net		
Cash Funds Expended—Net		
Decrease in cash resulting from operations		$
Funds required to purchase preferred stock retired or held in treasury		
Decrease in Cash—Net		$

Inventories

INVENTORIES

Inventories, before reserves, of —— Company and subsidiary manufacturing companies at the end of the year:

Year	Value	Year	Value	Year	Value

INVENTORIES OF CRUDE AND REFINED PRODUCTS

Year	Barrels	Amount	% of Current Assets

	December 31, 19—	December 31, 19—	Increase Decrease
Raw materials	$	$	$
Goods in process			
Finished goods			
Supplies			
Premiums			
Totals	$	$	$

Tangible and intangible property

PROPERTY SCHEDULE—DECEMBER 31, 19—

TANGIBLE PROPERTY—Segregated and valued as of December 31, 19—, in accordance with authority and direction of the stockholders at a special meeting held on May 21, 19—:		
Plants, mines and other tangible properties at December 31, 19—	$	
Less amounts included therein for properties which have been retired and/or sold since December 31, 19—		$
Additions other than emergency facilities since December 31, 19—, at cost		
Less retirements and/or sales of additions since December 31, 19—		
Depreciation and depletion since December 31, 19—		
Less depreciation and depletion since December 31, 19—, on property retired and/or sold after that date		
Emergency facilities additions during 19—, at cost		
Less depreciation and amortization on emergency facilities		
Net tangible property		
INTANGIBLE PROPERTY—Segregated and valued as of December 31, 19—, in accordance with authority and direction of the stockholders at a special meeting held on May 21, 19—:		
Good-will, patents, licenses, etc., at December 31, 19—		
Less amounts included therein for patents, licenses, etc., which have become fully amortized		
Additions since December 31, 19—, at cost		
Amortization since December 31, 19—, on unexpired patents, licenses, etc.		
Net intangible property		
Total net property as shown on balance sheet		$

Land, Buildings, Machinery and Equipment

	19—	19—	19—	19—	19—
Cost:					
Land					
Buildings					
Machinery and equipment					
Deduct: Portion of above cost allocated to operations to date shown:					
Land					
Buildings					
Machinery and equipment					
Cost not allocated to operations to date shown:					
Land					
Buildings					
Machinery and equipment					

PROPERTIES AND EQUIPMENT

	December 31, 19—			
Description	Gross Book Figures	Depreciation, Depletion and Amortization Reserves	Net Book Figures	Comparative Net Book Figures December 31, 19—
Production:				
Developed properties	$	$	$	$
Undeveloped properties				
Transportation				
Refining				
Marketing				
Miscellaneous				
Total, per balance sheet	$	$	$	$

The gross book figures of properties and equipment represent cost in cash, bonds, capital stocks or investments given in exchange, except for the book figures of certain properties and equipment which were reduced as of January 1, 19—, and other exceptions the net effect of which is relatively unimportant.

PROPERTY

	19—	19—
Balance at beginning of year	$	$
Add:		
Capital expenditures during year:		
Farm implement works and twine mills	$	$
Motor truck and tractor plants		
Branches and service stations		
Mines, furnaces, steel mills, etc.		
Total additions	$	$
Total	$	$
Deduct:		
Property sold, dismantled, etc.	$	$
Depletion of iron ore and coal		
Total deductions	$	$
Balance at end of year, before reserve for depreciation	$	$

A summary of the capital assets and related reserves as at December 31, 19— and 19— is as follows:

	19—			19—
Classification	Gross Book Value	Reserves	Net Book Value	Net Book Value
Lands, leases, easements and rights:				
Not subject to depletion or amortization	$		$	$
Subject to depletion or amortization		$		
Leasing and exploration costs				
Plant and equipment				
Incomplete construction				
Marine equipment				
Miscellaneous property				
	$	$	$	$

Leases and Royalties in United States Owned at December 31, 19—

FIELD	County	State	Net Acres	Net Wells	Operating Income 19—

ACREAGE	19— —— (Total)		19— —— (Total)
State	Gas Rights Owned	Leased	Total

WELLS		19— —— (Number)			19— —— (Number)
State	Prod'g Wells 12/31/—	Drilled or Acquired	Sold or Abandoned	Prod'g Wells 12/31/—	Wells Drilling

Undeveloped leases

State	Acres	Interest owned

In addition, we have undivided interests as follows:

State	Total	Our Interest	Wells

A summary of the intangibles at December 31, 19— and 19— is as follows:

	19—			19—
Classification	Gross Book Value	Reserves	Net Book Value	Net Book Value
Patents, processes, formulae and rights	$	$	$	$
Goodwill, copyrights and trade-marks				
Miscellaneous				
	$	$	$	$

Securities owned

SCHEDULE OF INVESTMENT STOCKS, BONDS AND ADVANCES

December 31, 19—

SECURITY DESCRIPTION			CARRYING VALUE	
Name	Kind	Per Cent Owned	Basis	Amount

INVESTMENTS AND ADVANCES—AFFILIATED COMPANIES

	December 31,	
Description	19—	19—
Investments in capital stocks (at cost or below, less allocated reserves):		
Companies more than 50% owned	$	$
Companies not more than 50% owned		
Advances, less allocated reserves		
Total, per balance sheet	$	$

Paper and pulp and other companies (at cost less write-downs and reserves of $—— on certain investments)		$
Book value of asset held by Liquidating Trust established January 31, 19—		
Securities of miscellaneous subsidiaries not consolidated (at cost less reserve of $——)		
United States Government and municipal bonds:		
Pledged under long term mortgage or deposited as guarantees ($—— principal amount, at cost or quoted market value, whichever is lower)	$	
Unpledged ($—— principal amount, at cost less write-down)		
Dominion of Canada and Provincial bonds:		
Deposited as guarantees ($—— principal amount, at cost)	$	
Unpledged ($—— principal amount, at cost)		
Total		$

Funds

SINKING FUNDS

Following is a statement showing the operations of the sinking funds for the year ended December 31, 19—:

	Face Value of Securities Purchased by Sinking Funds or Called for Retirement During 19—					Cash Deposited with Trustees for Payment of Interest from Last Interest Payment Dates of Securities to Dates of Redemption	
Character of Security	Purchased by Sinking Funds	Called for Retirement	Total	Total Face Value of Securities Retired in 19—	Premium on Securities Purchased for Retirement	Dates of Redemption	Amount

PURCHASE FUND FOR 6% CUMULATIVE CONVERTIBLE PREFERRED STOCK

Cash set aside November 20, 19—	$
Less expended up to May 20, 19—, in purchase of —— shares	
Balance returned May 20, 19— to general corporate funds	$
Cash set aside April 1, 19—	$
Less expended up to October 1, 19—, in purchase of —— shares	
Balance	$
Cash set aside October 1, 19—	
Less expended up to December 31, 19—, in purchase of —— shares	
Balance January 1, 19—	$
Total shares purchased for retirement	
Net shares outstanding	

Reserves

REPLACEMENT RESERVES

Reserves for	Balance in Reserve January 1, 19—	Provided During 19— from Earnings and by Charges to Current Expenses	Total	Charges to Reserves in 19—	Balance in Reserves on December 31, 19—

Depreciation Reserve

The following table shows changes in the depreciation reserve during the year 19—.

Consolidated depreciation reserve on December 31, 19—	$
Additions from operating expenses	
Additions from other sources	
Total additions	
Net deductions for property retired and other adjustments	
Increase during the year	
Consolidated depreciation reserve on December 31, 19—	$

RESERVES

DEPRECIATION:

The annual deductions from earnings for depreciation provide for the impairment and consumption of the capital assets utilized in production and distribution. Such depreciation is based on rates confirmed by experience in this industry.

	19—	19—
Balance at beginning of year	$	$
Add provision for year		
Total	$	$
Deduct depreciation on property sold, dismantled, etc.		
Balance at end of year	$	$

CONSOLIDATED RESERVES FOR DEPRECIATION, MAINTENANCE, REPAIRS AND RENEWALS

		Credits During the Year			Charges During the Year		
	Balance December 31, 19—	Provided through charges to income	Provided through charges to cost of billings and general expense	Proceeds from property and equipment dismantled, retired or sold	Expenditures for maintenance, repairs and renewals, etc.	Property and equipment dismantled, retired or sold	Balance December 31, 19—
Coke ovens, blast furnace stacks and stoves, melting furnaces and rolling mill heating and treatment furnaces	$		$		$	$	$
Rolls, moulds and stools, charging boxes, flasks and annealing boxes and bottoms							
Emergency facilities (Special amortization)		$					
All other property				$			
Totals	$	$	$	$	$	$	$
Totals previous year		$	$	$	$	$	

SPECIAL MAINTENANCE:

This reserve provides for relining of blast furnaces, open-hearth furnaces, maintenance of docks and harbors, and other extraordinary renewals and replacements.

	19—	19—
Balance at beginning of year	$	$
Add provision for year, charged to cost of goods sold		
Total	$	$
Deduct:		
Relining, renewal and other charges during year		
Balance at end of year	$	$

DEVELOPMENT AND EXTENSION:

This reserve is maintained for extraordinary programs involving large expenditures periodically required for tooling and pattern equipment.

	19—	19—
Balance at beginning of year	$	$
Add provision for year, charged to cost of goods sold		
Total	$	$
Deduct expenditures for tooling and pattern equipment for new model tractors and motor trucks		
Balance at end of year	$	$

Changes in the reserves for cash discounts, returns and allowances and doubtful receivables during the years ended October 31, 19— and 19— follow:

	19—	19—	Increase Decrease
Balance at Beginning of Year	$	$	$
Provision Charged to Operations			
Collection of Accounts Previously Charged off and other Recoveries			
Total	$	$	$
Deduct:			
Cash Discounts Allowed	$	$	$
Volume Discounts and other Allowances			
Uncollectible Accounts and Notes Charged off			
Surplus Credit—Reduction of Reserves Provided in Prior Years			
Total	$	$	$
Balance at End of Year	$	$	$
This Balance Represents Reserves for:			
Cash Discounts	$	$	$
Returns and Allowances			
Doubtful Receivables			
Total	$	$	$

FOREIGN INVESTMENT

This reserve provides for possible losses on the investment of the Company in foreign subsidiaries.

	19—	19—
Balance at beginning of year	$	$
Add:		
Provision for year		
Special provision transferred from surplus		
Total		
Deduct portion applied against investment in enemy-occupied Europe		
Balance at end of year		

LOSSES ON RECEIVABLES:

This reserve provides for losses which may ultimately be sustained in the collection of notes and accounts receivable.

	19—	19—
Balance at beginning of year	$	$
Add:		
Provision for year		
Recoveries during year of receivables previously written off		
Total	$	$
Deduct notes and accounts charged off		
	$	$
Deduct approximate amount of recoveries during year of receivables previously written off, restored to income		
Balance at end of year	$	$

Fire Insurance

The Company carries a reasonable portion of its own fire insurance risks at branches and motor truck sales and service stations. Modern methods of fire prevention and protection are rigidly enforced at the Company's properties

	19—	19—
Balance at beginning of year	$	$
Add provision for year, charged to operations		
Total		
Deduct losses by fire, etc. during year		
Balance at end of year		

Inventory Reserve

A substantial part of the Company's capital is at all times invested in inventories. This reserve is to provide against the effect of cyclical price declines.

	19—	19—
Balance at beginning of year		
Add provision for year		
Balance at end of year		

Capitalization

Summaries of capital structure, including capital stock, funded debt and other outstanding long-term debt, when not included as part of the financial statements, may be presented separately in the annual report. Several suggested arrangements are given below.

STOCKS, BONDS AND NOTES OUTSTANDING DECEMBER 31, 19—

Title of security	Par Value	Increase or Decrease During Year

SUMMARY OF CAPITAL STRUCTURE AND DIVIDEND RECORD OF THE —— CO. AND PREDECESSOR COMPANIES

Year	Shares Outstanding	Dividends Per Share	Total Dividends

REDUCTION OF CAPITAL

During the year the company reduced its outstanding capital stock through purchases as follows:

			Cost	
No. of Shares	Description	Par Value	Average Per Share	Total
—	Preferred, Series A, 8%	$	$	$
—	Preferred, Series C, 6½%			
—	Preferred, 5% Series			
——	Common			
	Total			$

The excess of the par value of this stock over the cost thereof, amounting to $——, was credited to Paid-in Surplus.

CONSOLIDATED FUNDED DEBT

Name of Issuer	Title of Issue	Interest rate in per cent	Outstanding per balance sheet	Owned by —— Corporation or by a Subsidiary Company		Date of maturity
				In Treasury	Pledged	

Funded Debt—December 31, 19—

TITLE OF SECURITY	Date of Maturity	Rate Per Cent	Total Issued to Dec. 31, 19—	Retired	In Hands of Company		In Sinking Fund	In Hands of Public	Interest on Securities in Hands of Public
					In Treasury	Pledged			

The market trend for the six year period from 19— through 19— is indicated by the following table of quotations on all of the securities of the Company outstanding during the year 19—:

	19—		19—		19—		19—		19—	
	Low	High	Low	High	Low	High	Low	High	Low	High
First and refunding Mortgage Bonds, 5% Series A, due October 1, 19—	$	$	$	$	$	$	$	$	$	$
First Preferred Stock										
Second Preferred Stock										
Common Stock										

STATISTICS OF PROGRESS

HIGHLIGHTS FOR THE LAST TEN YEARS

Profit and Loss Accounts

Year	Net Sales	Profit Before Taxes	Income Tax Provision	Net Profit Carried to Surplus	Preferred Stock Dividends Require-ments	Net Profit Applica-ble to Common Stock	Net Profit Applica ble to Common Stock per Share	Common Stock Dividends Paid	Common Stock Dividends Paid per Share	Earnings Retained in Business

Financial Status

Year	Working Capital	Ratio	Plant and Equipment (Net)	Investments, Intangibles, Prepaid Expenses, etc. (Net)	Preferred Stock	Common Stock Equity	Common Stock Equity per Share

A DECADE OF DEVELOPMENT

Year	Average Number of Customers During Year	Generating Capacity (Kilowatts)	Peak Demand (Kilowatts)	Sales (Kilowatt-hours)	Electric Operating Revenues	Rate Reductions Effective for Succeeding Year

FINANCIAL RECORD ON PER SHARE BASIS

Year	Sales	Total Taxes	Earnings Before Taxes on Income	Earnings After Taxes	Dividends Paid

STATISTICAL DATA FOR THE —— YEAR PERIOD ENDING DECEMBER 31, 19—

BALANCE SHEET STATISTICS (in thousands of dollars)

Year	Gross Total Assets	Net Working Capital	Current Asset Ratio	Total Invested Capital	Gross Fixed Assets	Depreciation & Amortization Reserves

INCOME STATISTICS (in thousands of dollars)

Year	Net Sales	Operating Income	% of Sales	Depreciation & Amortization	Income Taxes	Contingency Reserves	Net Income	Post War Refund

FIVE-YEAR DIGEST OF COMPANY'S OPERATIONS

	19—	19—	19—	19—	19—
Retail Sales (Net)					
Wholesale Sales (Net)					
Total Sales (Net)					
Net Income Before Income Taxes					
Income Taxes					
Net Income After Taxes					
Dividends Paid					
Income Retained in Surplus					
Net Income per Share Before Income Taxes					
Income Taxes per Share					
Net Income per Share					
Dividends Paid per Share					
Book Value per Share					
Net Working Capital					
Net Worth					
Merchandise Inventories					
Notes & Accounts Receivable (Net)					
Total Taxes					
Number of Employees					
Number of Company-Owned Stores					
Number of Dealers					
Number of Wholesale Houses					
Number of Stockholders					

	19—	19—	19—	19—	19—
Ratios:					
Current Ratio					
Sales to Net Worth					
Sales to Net Fixed Assets					
Sales to Working Capital					
Sales to Inventories					
Sales to Accounts Receivable					
Net Income to Sales					
Net Income to Net Worth					

BALANCE SHEET AND INCOME ACCOUNT COMPARISONS

For your information comparative data relative to the balance sheet and income account has been prepared, after giving effect where necessary to a reclassification of certain items in prior years.

Year End Dec. 31	Excess of Cash and Gov't Securities Over Current Liabilities	Ratio of Current Assets to Current Liabilities	Net Working Capital	Percentage of Year End Inventories to Sales

Year End Dec. 31	Percentage of Fixed Assets to Total Assets	Bank Loans and Funded Debt	Net Earnings as Reported		Dividends Declared	
			Per Sales Dollar	Per Common Share	Per Sales Dollar	Per Common Share

CAPITAL STOCK STATISTICS (per share)

Year	Net Earnings	Income Taxes	Dividends Paid	Book Value	Price Range	
					High	Low

EXCERPTS FROM COMMENTS ON FINANCIAL CONDITION

The excerpts that follow have been selected because they show what can be done in the commentary with items that usually receive scanty treatment in annual reports.

Practices reflected in the financial statements

The balance sheet and summaries of income and surplus of General Motors Corporation and its consolidated subsidiaries for the year ended December 31, 19—, in comparison with the statements of the preceding year, are shown on pages — to — of this report. Subsidiaries which, in accordance with past procedure, are not consolidated in the financial statements of the Corporation are listed on page —, together with other investments and miscellaneous assets.

It has been the practice of the Corporation over a long period of years to include in the income statement all revenues, income, costs, expenses, losses and provisions for contingencies which are applicable to the current year's operations even though some are not definitely determinable in amount at the time. It has also been the practice of the Corporation to include all prior year adjustments in the income statement for the current year. When relatively significant, the nature and amounts of these items are stated. The practice of charging or crediting such adjustments to the earned surplus account has never been followed by General Motors.

The Corporation's procedure in making provision for reserves is fully explained under *"A Reserve Policy"* in the 19— annual report: ". . . *reserves are derived from charges against earnings and represent a provision for some foreseen expense or loss of asset value properly applicable to the period in which such charge against earnings is made, but which cannot be definitely established until some time in the future. When the facts are finally established, the amount involved, having been previously provided for, may be charged to the reserve and therefore does not affect the profits of the business for that particular period. If the amount finally determined is in excess of the reserve provided, the difference is charged against operations of the current period and hence reduces such profits. If the amount is less than provided for, the established excess of the reserve is restored to earnings and the profits in the particular period involved, as reported in the income statement, are increased accordingly. Any reserves set up currently to cover anticipated losses and expenses, even though they are attributable to current operations, are not an allowable deduction in determining the amount of income upon which Federal income taxes are paid. The amount of each loss or expense becomes an allowable item for tax purposes only when it is actually realized and determinable.*"

General Motors has also followed the practice of making provision currently for income and excess profits taxes by charging income with the amounts estimated to be payable for the year under the applicable tax laws. In every year there are necessarily differences between income subject to taxes and the amount of income reported in the income statement. The major differences relate usually to provisions for anticipated losses and expenses and use of reserves previously provided, as discussed above, and to the amount of depreciation and amortization provided for real estate, plants, and equipment. The amounts of depreciation and amortization provided in the accounts usually have exceeded the amounts currently allowed for tax purposes. [*General Motors Corporation*]

Explanation of a balance sheet

The balance sheet of a corporation need not be a mystery.

When you want to know what you are worth in dollars and cents, you list everything you possess, plus what is due you from other people; then you also list your debts. The difference between what you have and what you owe others is your financial standing at that time.

A corporation is a business which is made possible because a number of people have put their money into the enterprise. They are stockholders. The balance sheet of a corporation, while somewhat more complicated, is basically just a summary of what the business has and what it owes at a particular date.

What a business has includes cash, and property which will shortly be turned into cash in the normal flow of business—these are called Current Assets. In addition there are assets of a more permanent nature such as buildings and machinery and equipment. For accounting purposes, the amount shown for these assets is generally based upon their original cost to the corporation. From the original cost is subtracted the estimated amount of cost used up in operations (depreciation), leaving the amount of cost remaining to be absorbed in future operations.

The difference between what a corporation has and what it owes represents the interest of the owners—stockholders. [*The Murray Corporation of America*]

Changes in working capital

Cash, $——, and U. S. Government securities, $——, were equivalent to —% of total current liabilities. No bank loans were outstanding at the close of the year.

The ratio of current assets, $——, to current liabilities, $——, was 3.7 to 1 at the close of the year, compared to 3.3 to 1 at its beginning. Net current assets —current assets minus current liabilities—increased $—— during the year. Net current assets at the close of the year for each of the last five years follow:

	Net Current Assets
19—	$
19—	
19—	
19—	
19—	

Variations from year to year in the Company's working capital not only reflect retained earnings but, also, changes in the Company's Funded Debt. The substantial increase in working capital in 19— was due largely to the placing of a six-year bank loan in that year. In 19— a part of retained earnings was used to liquidate this loan. While the foregoing comparison shows a consistent and substantial increase in working capital, this increase was not as great percentage-wise as was the percent of increase in sales for the same period. In this period in which working capital increased sixty percent, sales increased eighty-five percent. In 19— working capital at the close of the year was the equivalent of 20.1% of sales for the year. The comparable figure for 19— was 17.3%.

Of the eighteen million dollar increase in working capital shown in the foregoing comparison, over eleven and a quarter million dollars was added to the Company's cash and government security accounts. The substantial increase in cash, during the period in which the ratio of total working capital to sales volume declined, resulted from unusual conditions growing out of the war effort. The inadequacy of merchandise supply in relation to consumer demand forced a faster than normal turnover of inventories. Large amounts of cash in the hands of consumers and government restrictions on credit-granting resulted in reductions in the normal ratio of accounts receivable investment to sales. The unavailability of many lines of merchandise usually purchased by the consumer on a deferred payment basis resulted in a substantial reduction in the amount of deferred payment accounts.

Many expenditures on physical plant were deferred during the war period due to unavailability of materials and manpower and to government restrictions on construction activities. This resulted in an accumulation of cash and, therefore, an increase in working capital. As normal times return it is expected that delayed physical plant expenditures will be made, and that merchandise inventory and accounts receivable investments will increase. These requirements, together with the probability of further sales increases, will utilize fully all of the Company's working capital and make advisable some additional financing. [*Allied Stores Corporation*]

How an increase in sales affects need for working capital

When sales volume expands, funds are naturally required for related increases in inventories, accounts receivable, plant, equipment and miscellaneous items. Expenditures on plant and equipment are necessary not only to expand output, but also to improve operating efficiency and to maintain a strong competitive position for the company. Improvements in facilities aid employees in increasing their productivity and incidentally their earning power. Such financial needs were in mind when funds were obtained through the offering of additional shares to our stockholders at the end of 19—. On the basis of our experience for the 19—-— period, we have learned that for every $1.00 of additional sales volume, it is necessary to provide roughly $0.44 for increases in inventories, accounts receivable, plant, equipment and miscellaneous items.

It is also important to consider the amount of investment required to provide a job. For each job in our company, there is an average investment of approximately $——. This calculation includes the investment in trademarks, formulae, and other intangibles, written off since 19— in accordance with our policy prior to January 1, 19— of carrying intangibles at $1 in our balance sheet. The bulk of our investment in intangibles represents what we have paid prior owners of trademarks and businesses for building up the economic value of these intangibles through advertising, sales promotion and general enterprise. [*American Home Products Corporation*]

The inventory situation

The greater portion of our product inventory is valued on the basis of market less selling expense or the lower of cost or market. The balance is valued on a cost basis of "last-in, first-out" (LIFO). Total quantities at year end are just slightly higher than at the close of the previous fiscal year. Although quantities of meats are lower, this is offset by larger quantities of other products. The increase in total product values over last year reflects, almost entirely, higher prices over a year ago. Rebuilding our meats stocks after the involuntary liquidations prior to October 15 when controls were finally removed required large amounts of cash at the prevailing high prices. Additional large sums have been expended since the close of the fiscal year and will be expended during the current seasonal heavy livestock marketings when inventories are normally built up. Our policy during the past six years of conserving our resources and building up our working capital is now of inestimable value in facilitating the maintenance of our volume of business at the current high level of prices.

Considerable quantities of our basic LIFO inventories have been involuntarily liquidated. A reserve has been provided for the excess of replacement cost, at current prices, over basic LIFO costs of such involuntarily liquidated inventories and such reserve appears in the balance sheet, net of taxes, under current liabilities.

Taking cognizance of the uncertainties inherent in present price levels, we have set aside a reserve of $—— for inventory price declines on that portion of our inventories not valued on the LIFO basis. This amount appears as a reserve in our balance sheet. The $—— has been deducted from our net earnings for the year as will be noted in our income statement and the balance of $—— has been transferred to surplus. [*Armour and Company*]

Significance of inventory valuation on last-in first-out basis

The metal content of inventories is stated at cost, determined in the last-in first-out basis, which is lower than at market prices. This method of determining the cost of metals in inventories, and in the cost of products sold, was adopted at January 1, 19— with respect to silver and at January 1, 19— as to other metals. The remainder of the inventories is stated at the lower of cost or market, on the first-in first-out basis.

The last-in first-out basis follows the assumption that the most recently purchased materials are used first. With a relatively steady volume of inventories, the method tends to freeze the values at the price level of the date at which the method is adopted. This avoids the necessity of showing an increasing value for the same quantity of material in a period of rising prices, which must be absorbed as a loss when prices fall in later years. The adoption of this method in 19—, as to metals other than silver, results in a decrease of approximately $—— in profit for the year, as compared with the profit which would have been reported if determined on the basis used in 19——equivalent to $0.89 per Common Share which, added to the $7.28 reported for the year, would have totalled $8.17 per share. [*Cleveland Graphite Bronze Company*]

Expansion

The gauze requirements of your Company have made it a major factor in the textile industry, and increases in the sales of Kotex during the past few years have made it difficult at times to secure sufficient gauze of the quality and construction needed.

The desirability of owning a cotton textile mill to satisfy at least a portion of the gauze requirements had been apparent for some time, and several properies were thoroughly investigated. It was recognized that if a suitable property could be found, it would be necessary to arrange for financing the purchase.

Early in 19—, it was decided to buy a mill property at Balfour, North Carolina. The mill had been producing 80 square print cloth and could be readily converted to Kotex gauze construction; it had no long term commitments for its output; it had good labor relations and a satisfactory labor supply.

The transaction was completed on June 24, 19—, at which time the purchase price of $2,800,000 was borrowed on short term loans from your Company's bankers. Your management felt at that time that the cash needed to retire the short term loans, as well as for the conversion of the new property to produce Kotex gauze and for other corporate purposes, could best be raised by the sale of common stock.

In line with this program, the stockholders on July 17, 19— voted to increase the number of authorized shares of common stock from 600,000 to 1,500,000; to place a $2.00 par value on each of the new shares; and to eliminate the pre-emptive rights of stockholders to subscribe for any new shares that might be offered for sale. On the same day, the Board of Directors voted to issue two of the new shares for each one of the old shares then outstanding, thus making 300,000 shares available for sale.

Preparations for the public offering of the common stock were almost completed when unfavorable conditions developed in the securities market, particularly with respect to new stock offerings. Under such conditions, your management did not regard it as being to the best interests of your Company to sell the new shares at a price which would net the Company less than what was believed to be their fair value. The plan was therefore temporarily abandoned.

As an alternative measure, a seven year loan of three and a half million dollars was negotiated with your Company's bankers. In the judgment of your management, the terms of this loan are favorable to the Company. However, should future conditions warrant such action, the proposal to sell common stock can be reconsidered, and the loan can be paid before maturity. [*International Cellucotton Products Company*]

GOODWILL

There is an item on the asset side of the Balance Sheet carried at *one* dollar which warrants special attention. That item is Goodwill, a priceless possession which cannot be valued in dollars and cents for many reasons. It involves the relations of the Corporation to several different groups—people in whose hands rests, to a large degree, the reputation of Murray and its products.

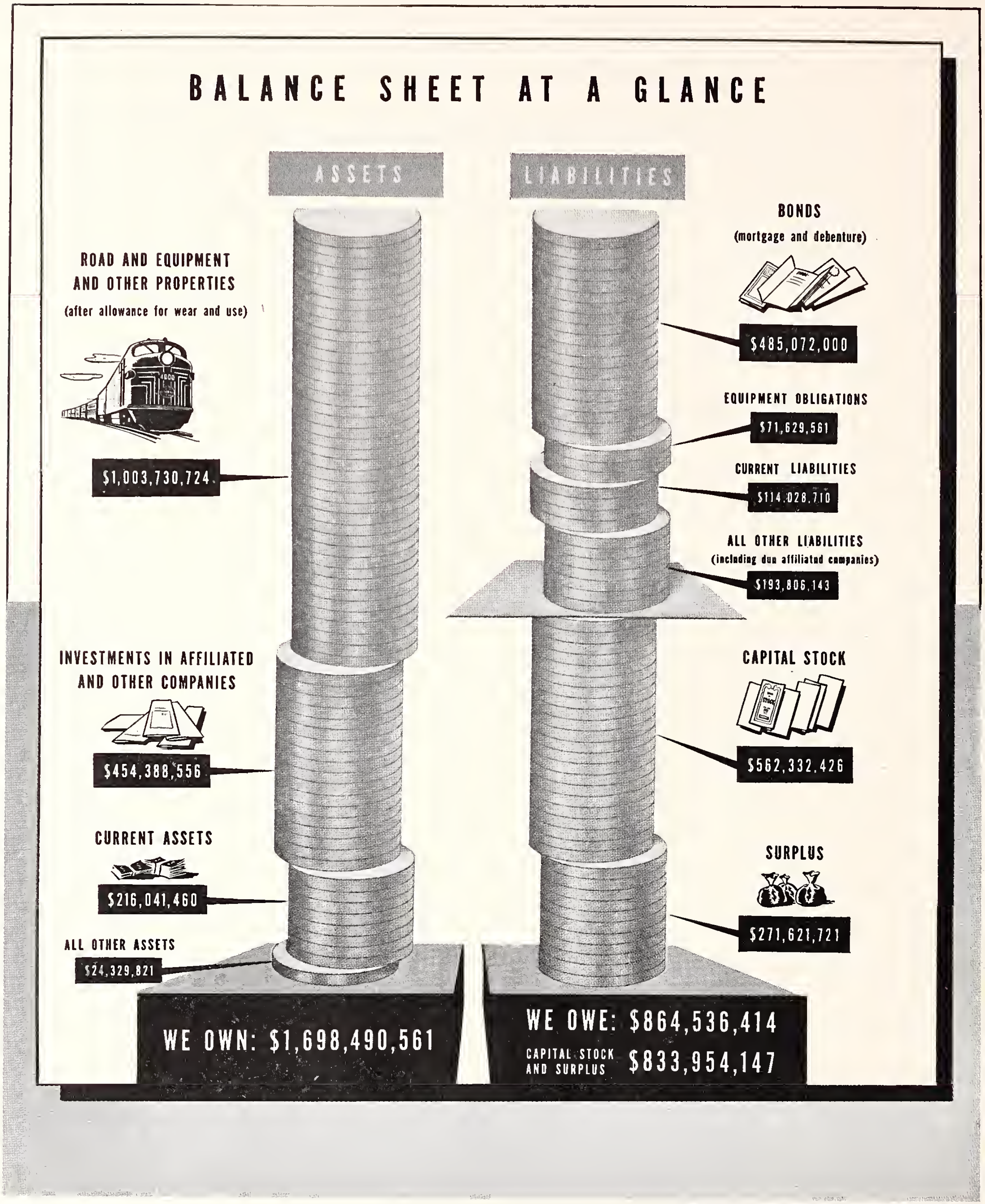
Among the groups interested in Murray are its stockholders—the owners of the business who have invested cash in the enterprise. These people are the source of additional capital, needed to finance future expansion of the business. Stockholders are entitled to dividends—else why should they risk their money if there is to be no return upon the capital?

Dollar value may be placed upon plants, machinery and equipment. What value is to be placed upon the essential "know-how" of the staff of Murray—the knowledge, technique and skill accumulated by the people in our plants through years of practical manufacturing experience? It is the "know-how" which gives the plants and machinery earning power and therefore real value. Goodwill and loyalty of our employees, shown in the conscientious way they do their day's work, is a real factor in building Goodwill for our products. But how place a value on it? To these men and women—and those who served faithfully before them in our shops—credit is due for the consistent quality of our products, which by performance in the hands of users have built a good name for us with our customers.

Murray by its relations through the years with its suppliers of material has established Goodwill. Without their help and cooperation in delivering materials in a constant flow, Murray could not have maintained its production schedule—so essential to financial success in manufacturing operations.

Finally Murray could not sell its products in large volume to the many big companies it has served year after year, unless Murray had earned the confidence these customers have in the stability of the Corporation, the uniform quality of its products and the ability of the Murray Organization to live up to promised delivery schedules—and at prices which meet competition.

While these are not all, they are the principal factors involved in the item of Goodwill carried at a dollar on the asset side of the Balance Sheet. [*The Murray Corporation of America*]

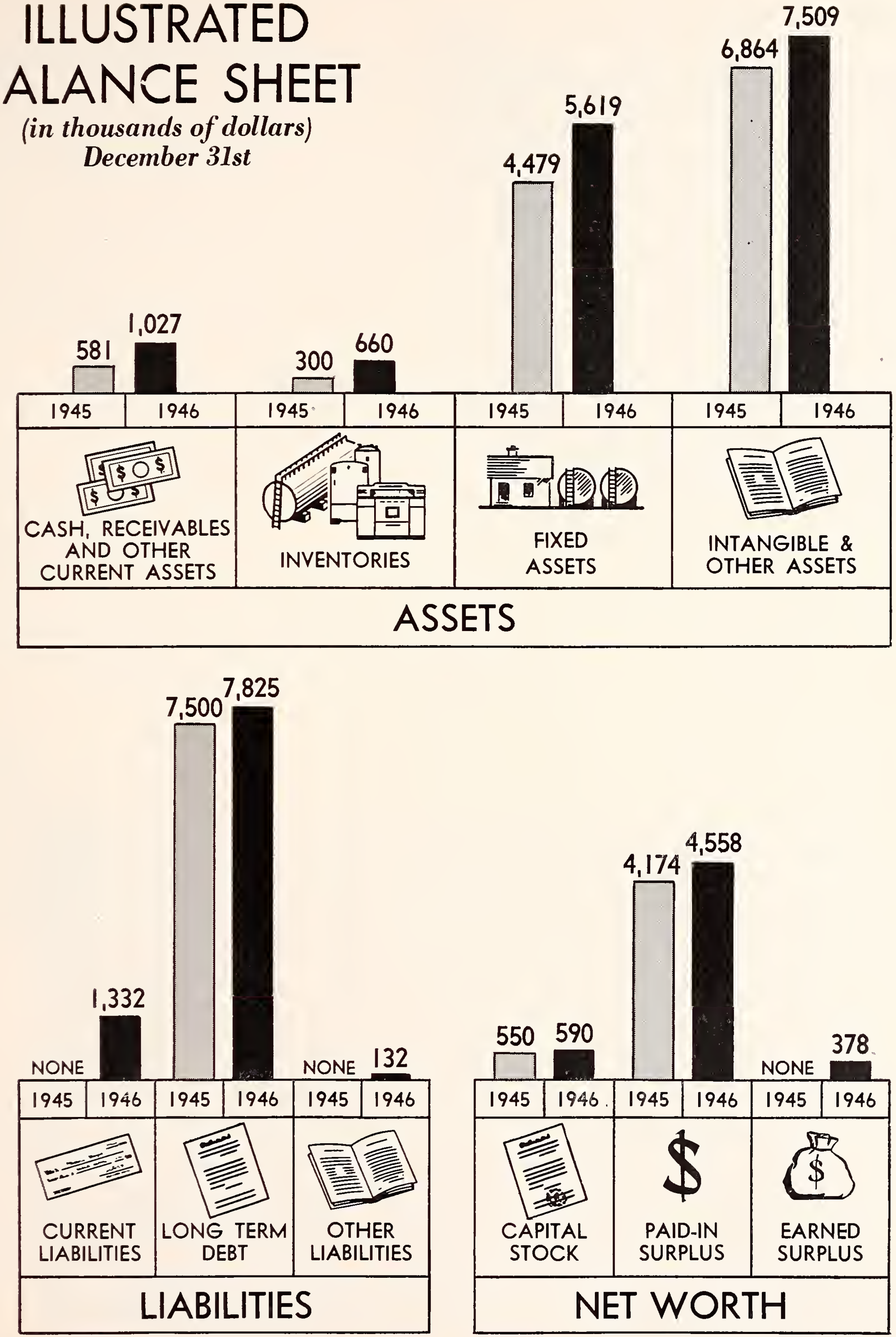


Courtesy, New York Central Railroad Company

Fig. 76

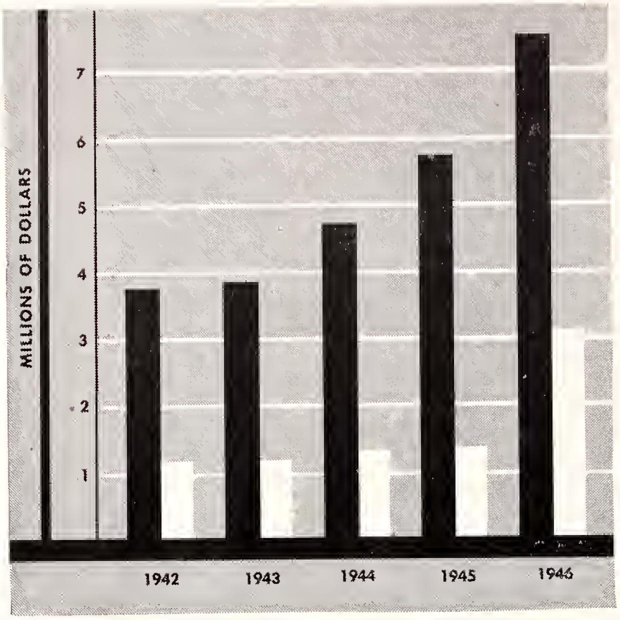
ILLUSTRATED BALANCE SHEET

(in thousands of dollars)
December 31st



Courtesy, Suburban Propane Gas Corporation
Graphic by Pick-S. N. Y.

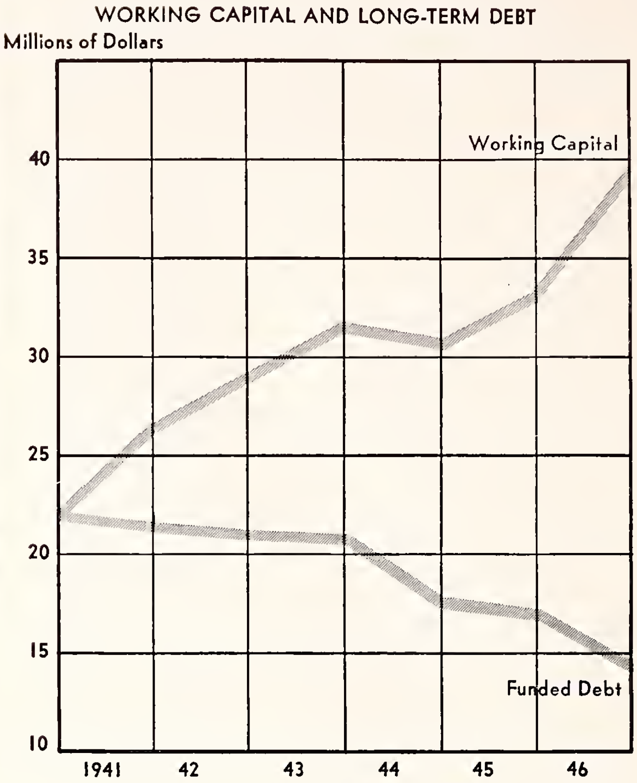
Fig. 77



CURRENT ASSETS (BLACK) AND CURRENT LIABILITIES (WHITE)

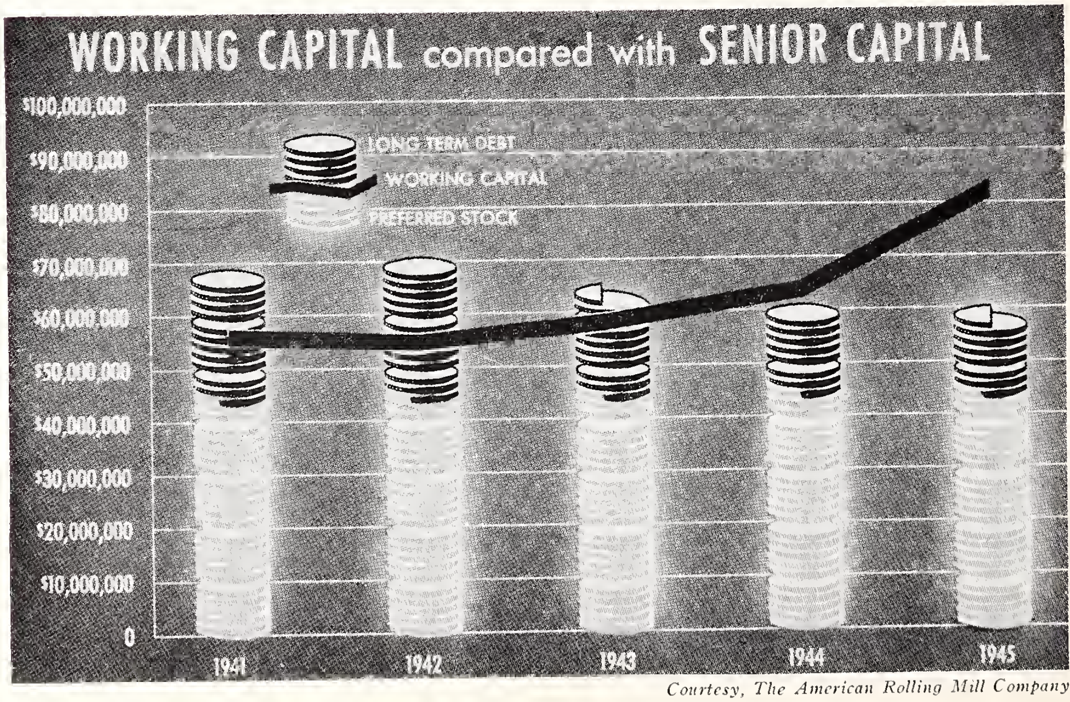
Courtesy, American Colortype Company

Fig. 78



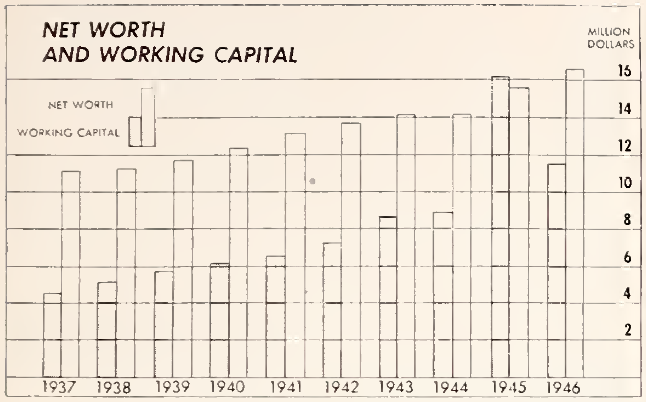
Courtesy, The Cudahy Packing Company

Fig. 79



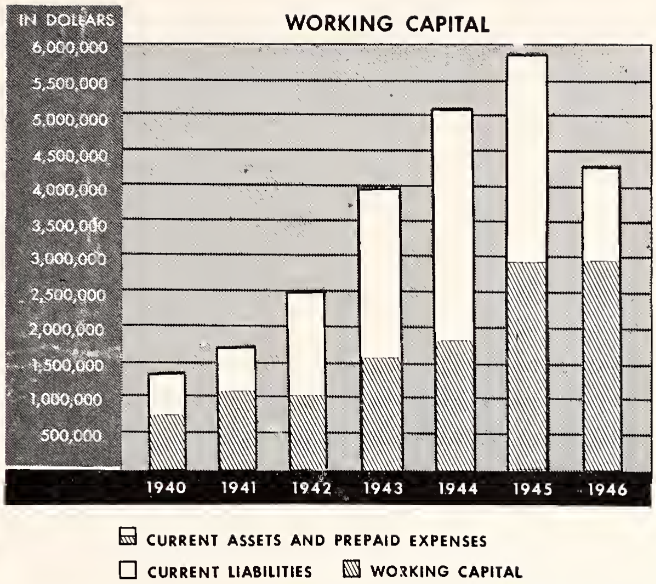
Courtesy, The American Rolling Mill Company

Fig. 80



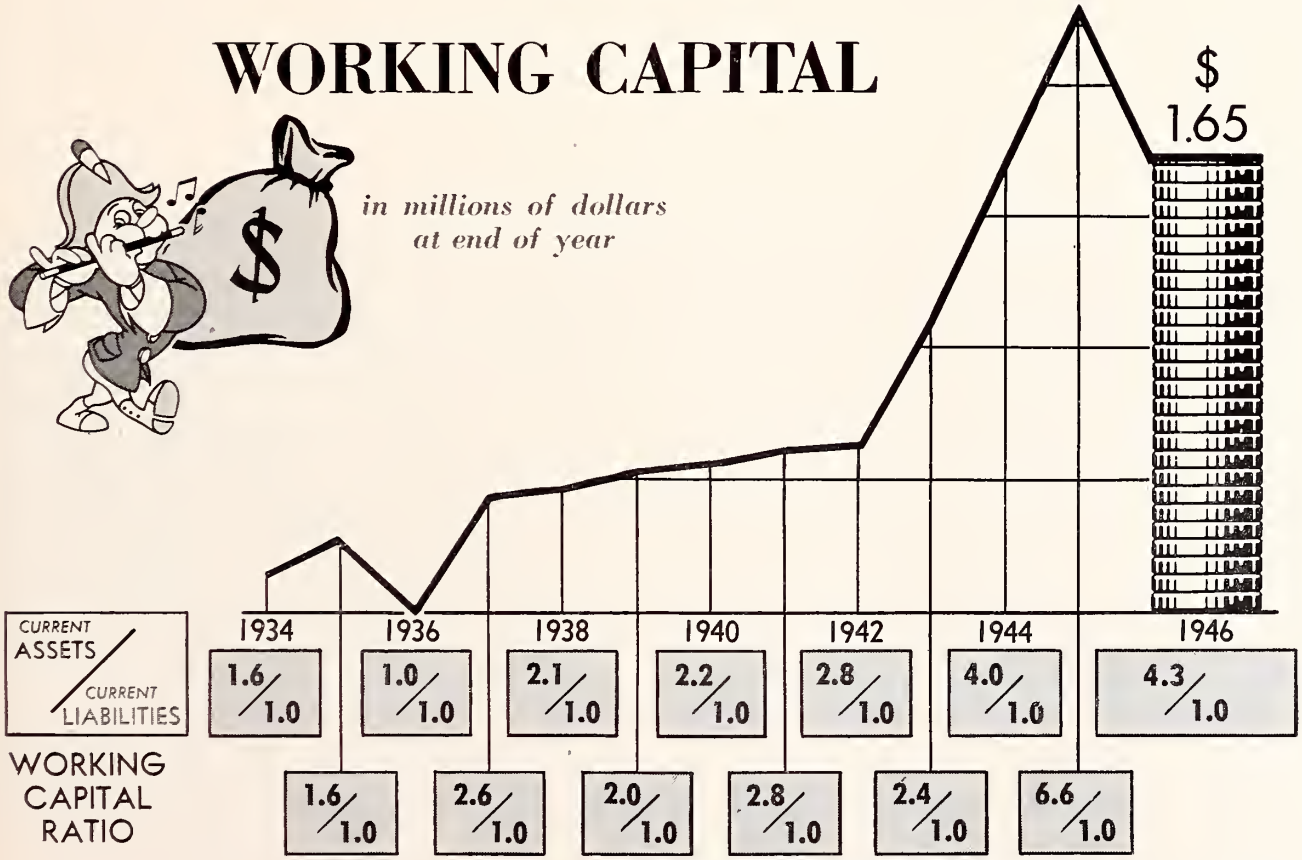
Courtesy, Houdaille-Hershey Corporation

Fig. 81



Courtesy, Signode Steel Strapping Company

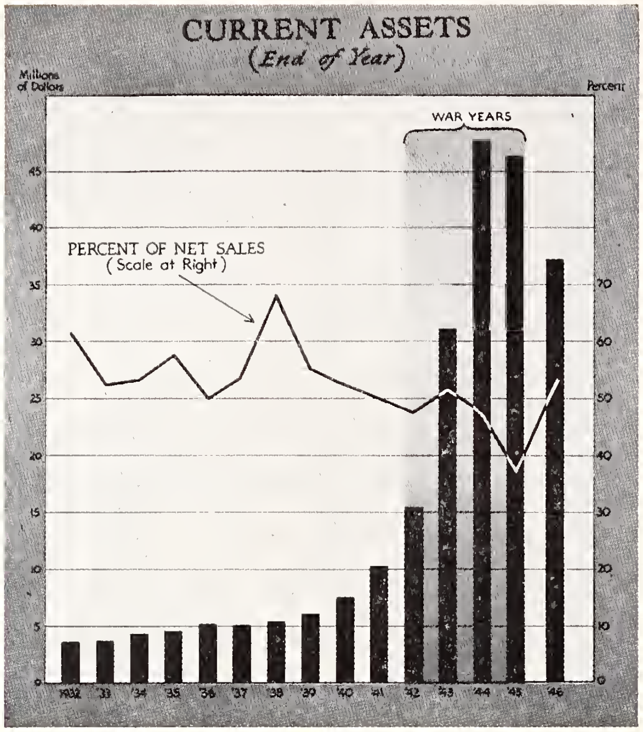
Fig. 82



INCLUDES ENGINEERING SPECIALTIES CORP. 1943, '44, '45, '46

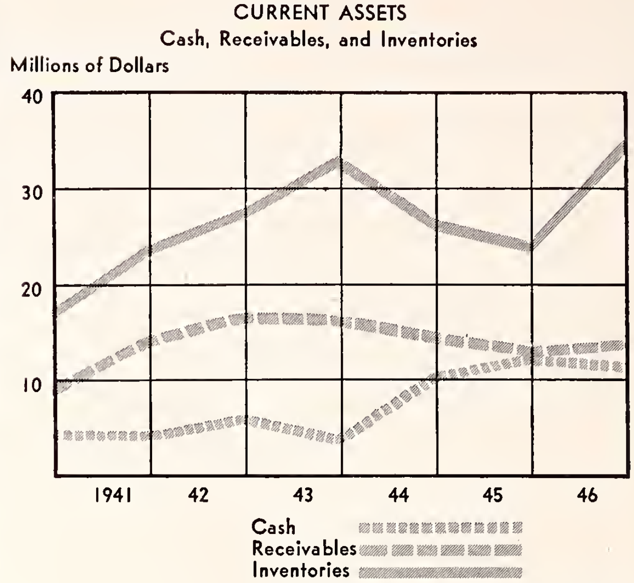
Courtesy, Pfeiffer Brewing Company
Graphic by Pick-S, N. Y.

Fig. 83



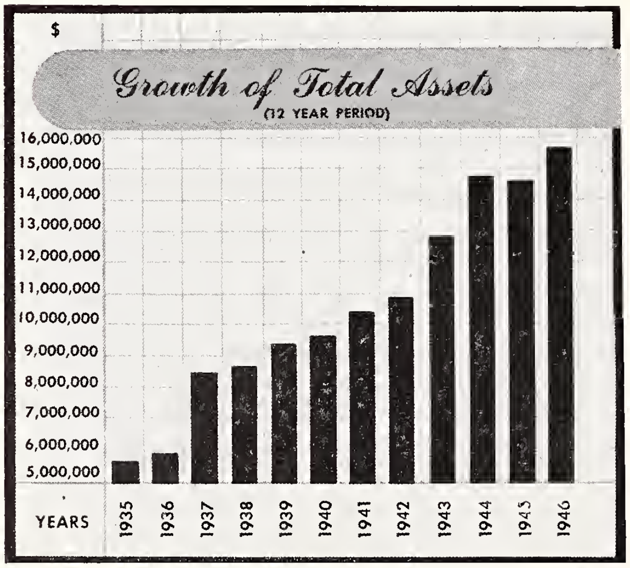
Courtesy, Sylvania Electric Products Inc.

Fig. 84



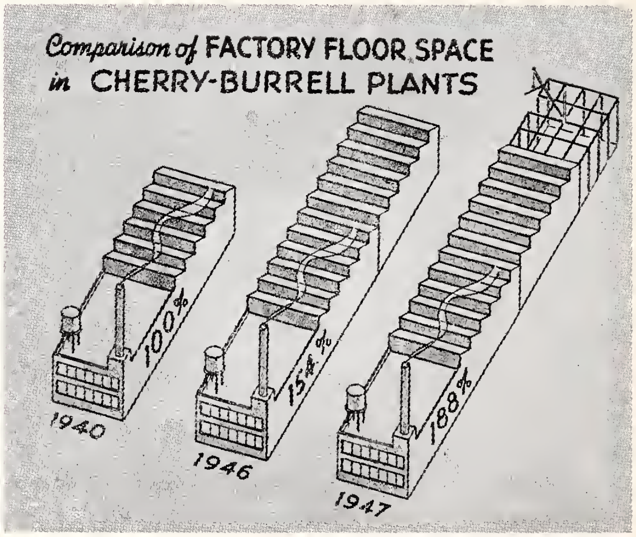
Courtesy, The Cudahy Packing Company

Fig. 86



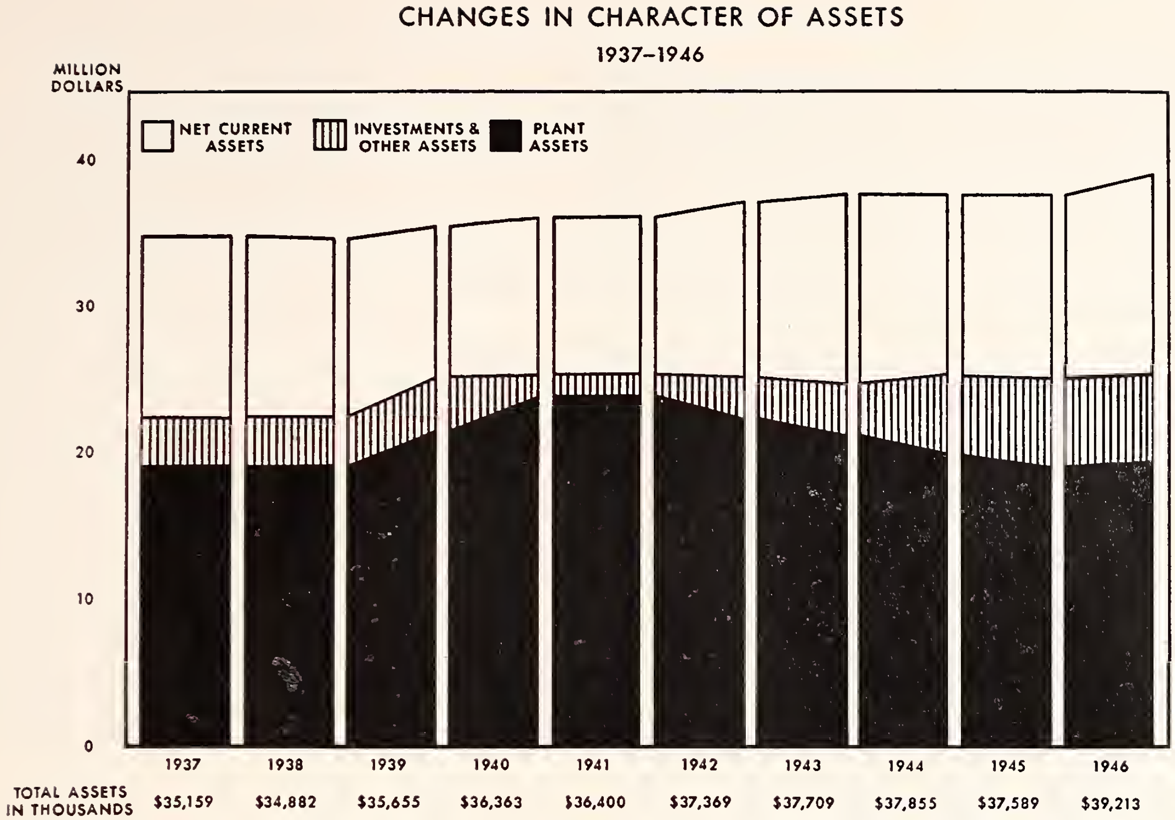
Courtesy, George Weston Limited

Fig. 85


Comparison of FACTORY FLOOR SPACE in CHERRY-BURRELL PLANTS
100%
154%
188%
1940
1946
1947

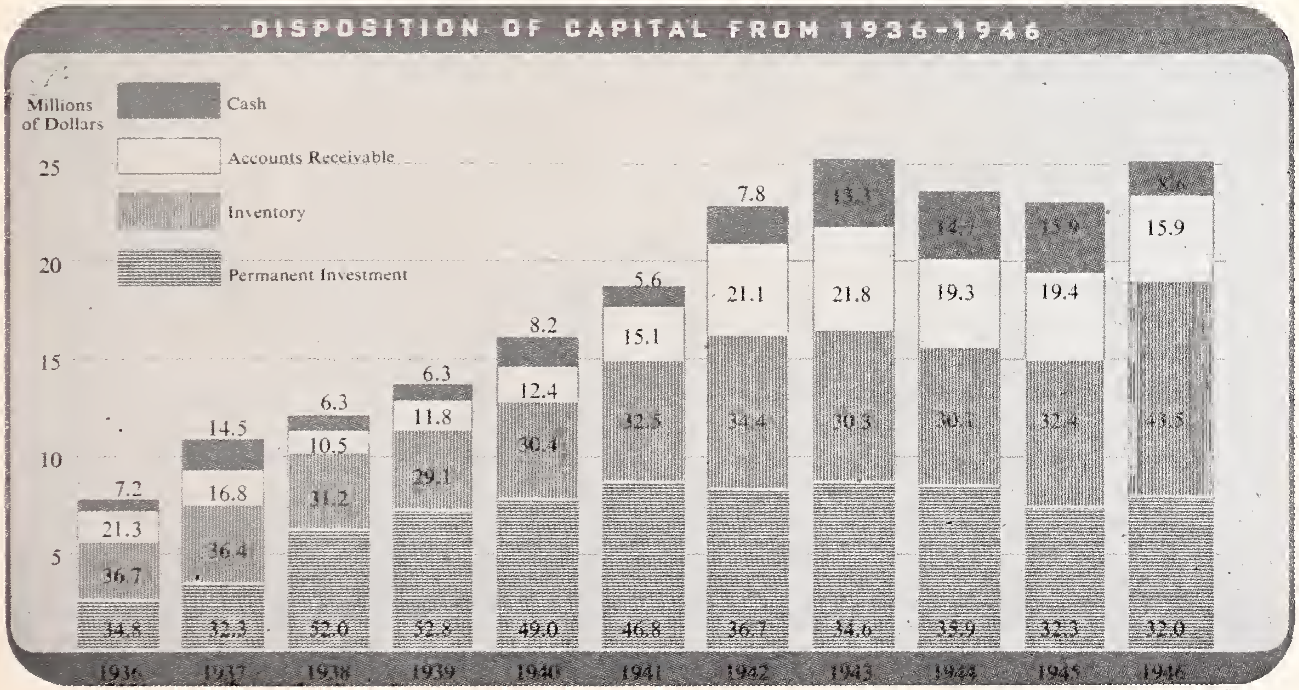
Courtesy, Cherry-Burrell Corporation

Fig. 87



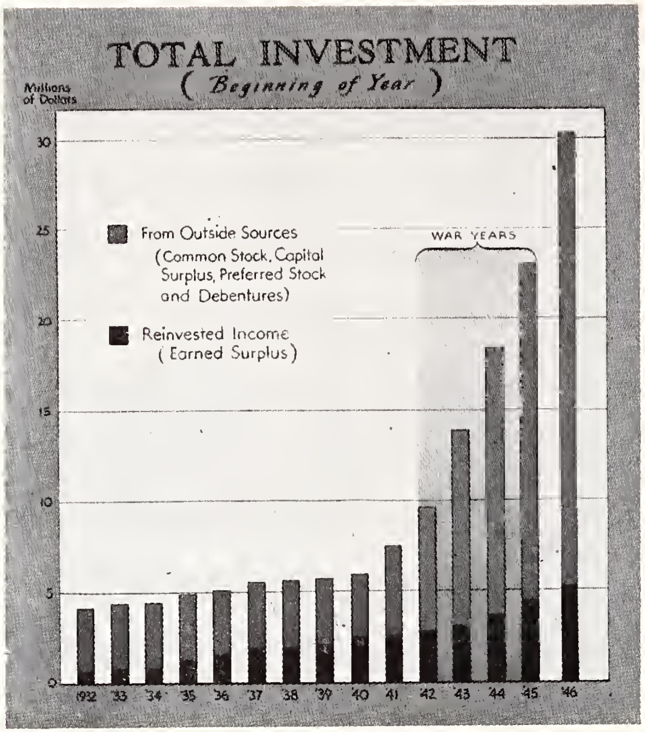
Courtesy, Lehigh Portland Cement Company

Fig. 88



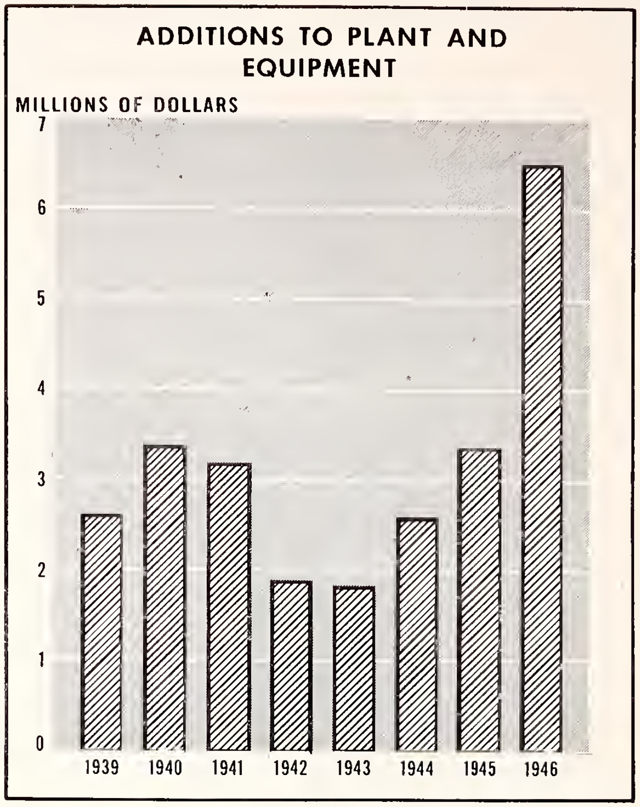
Courtesy, Bridgeport Brass Company

Fig. 89



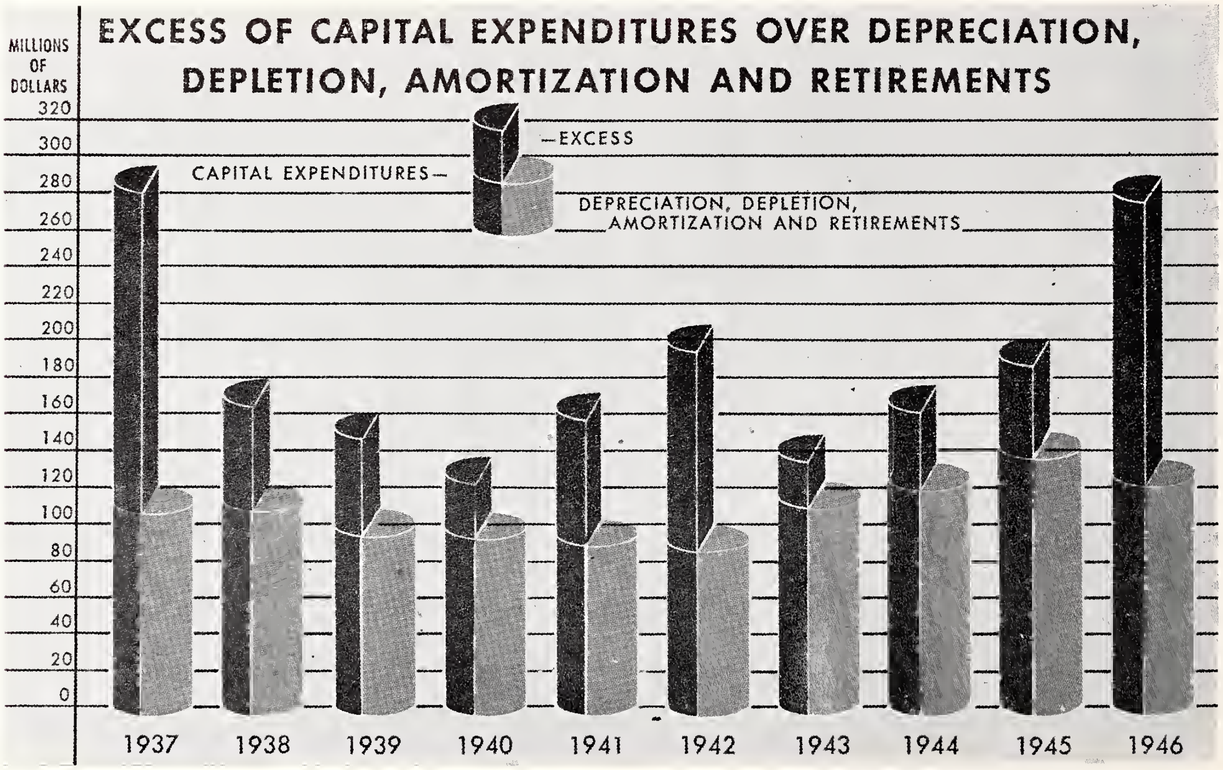
Courtesy, Sylvania Electric Products Inc.

Fig. 90



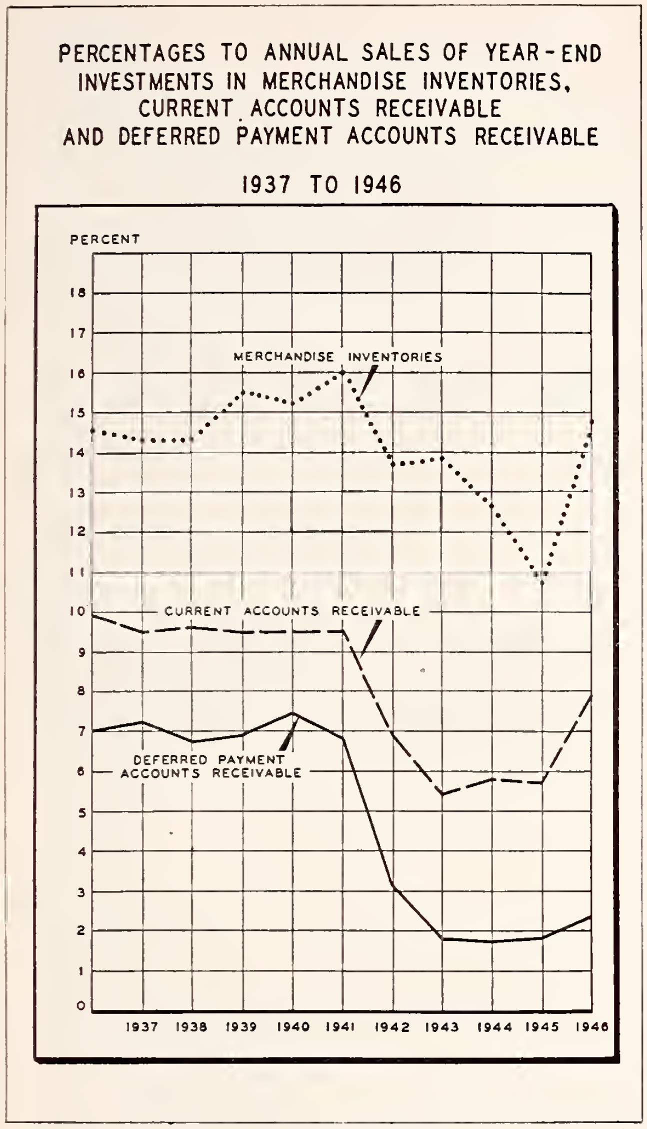
Courtesy, General Analine & Film Corporation

Fig. 91



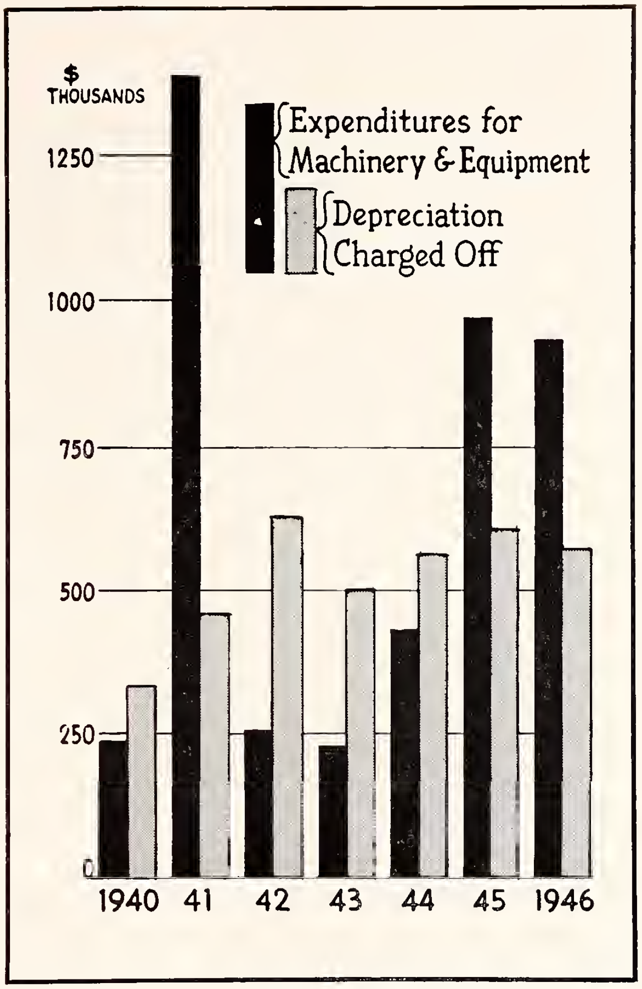
Courtesy, Standard Oil Company (New Jersey)

Fig. 92



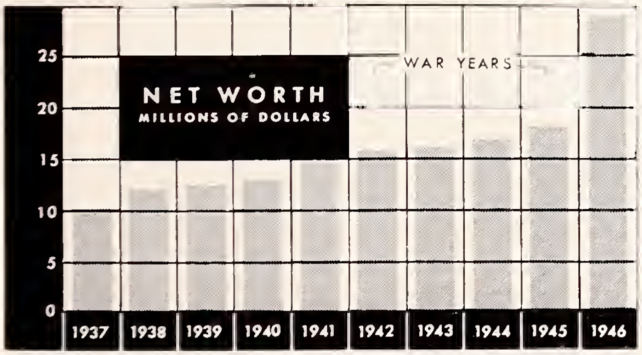
Courtesy, Allied Stores Corporation

Fig. 93



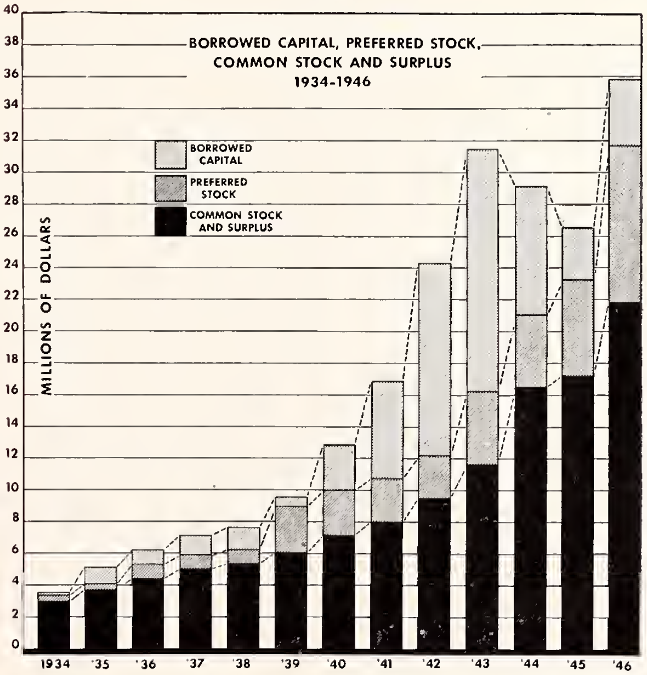
Courtesy, The United Electric Coal Companies

Fig. 95



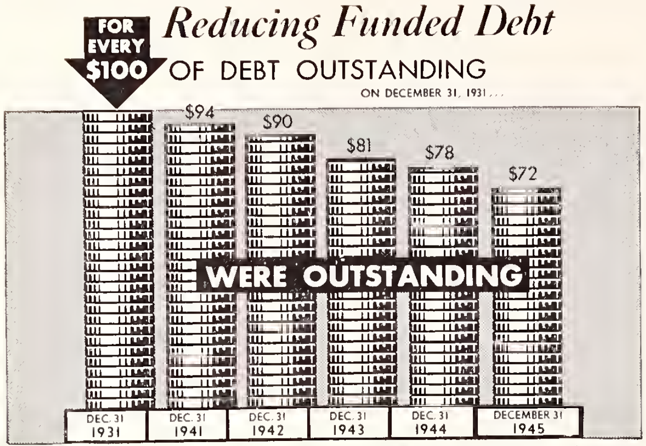
Courtesy, National Gypsum Company

Fig. 94



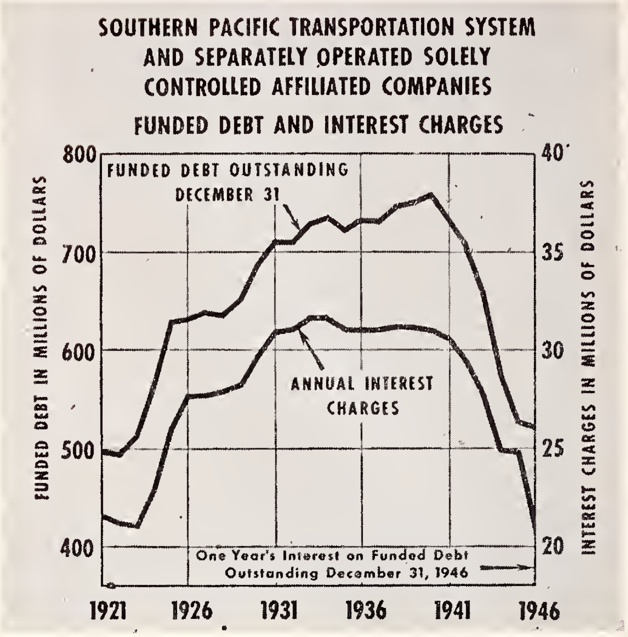
Courtesy, Thompson Products, Inc.

Fig. 96



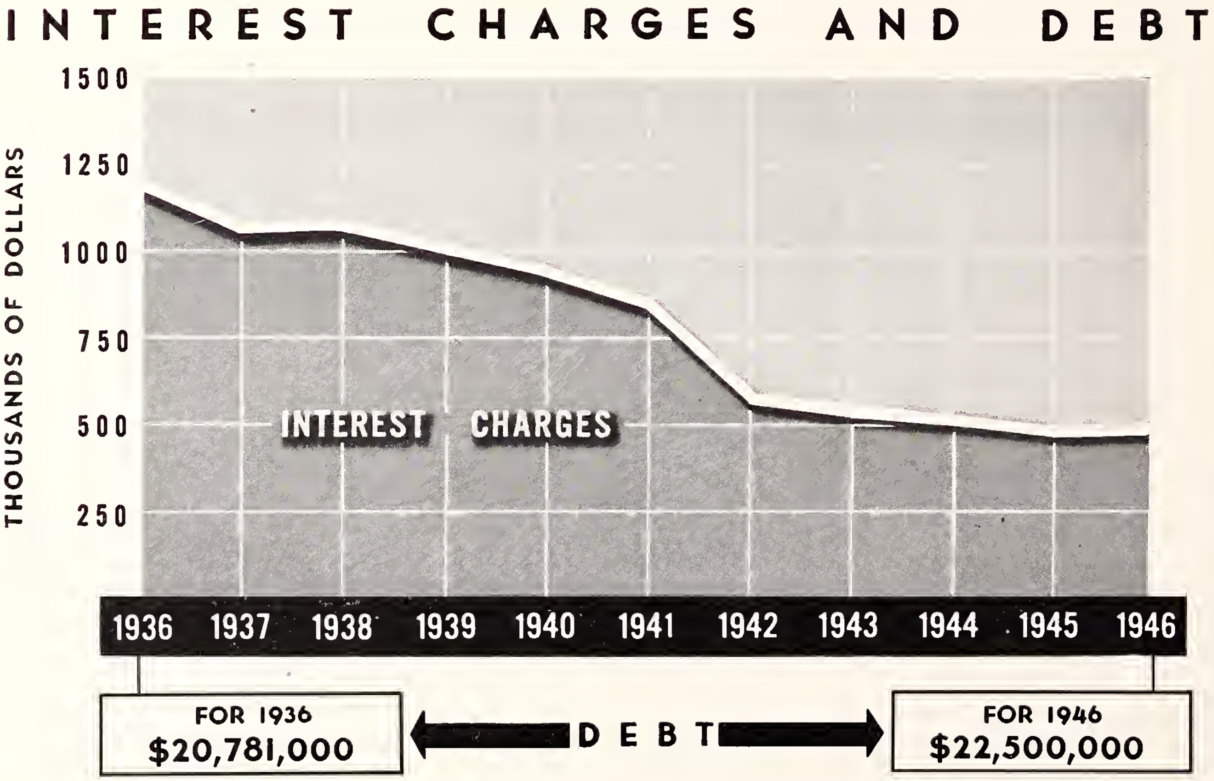
Courtesy, Pere Marquette Railway Company
Graphic by Pick-S, N. Y.

Fig. 97



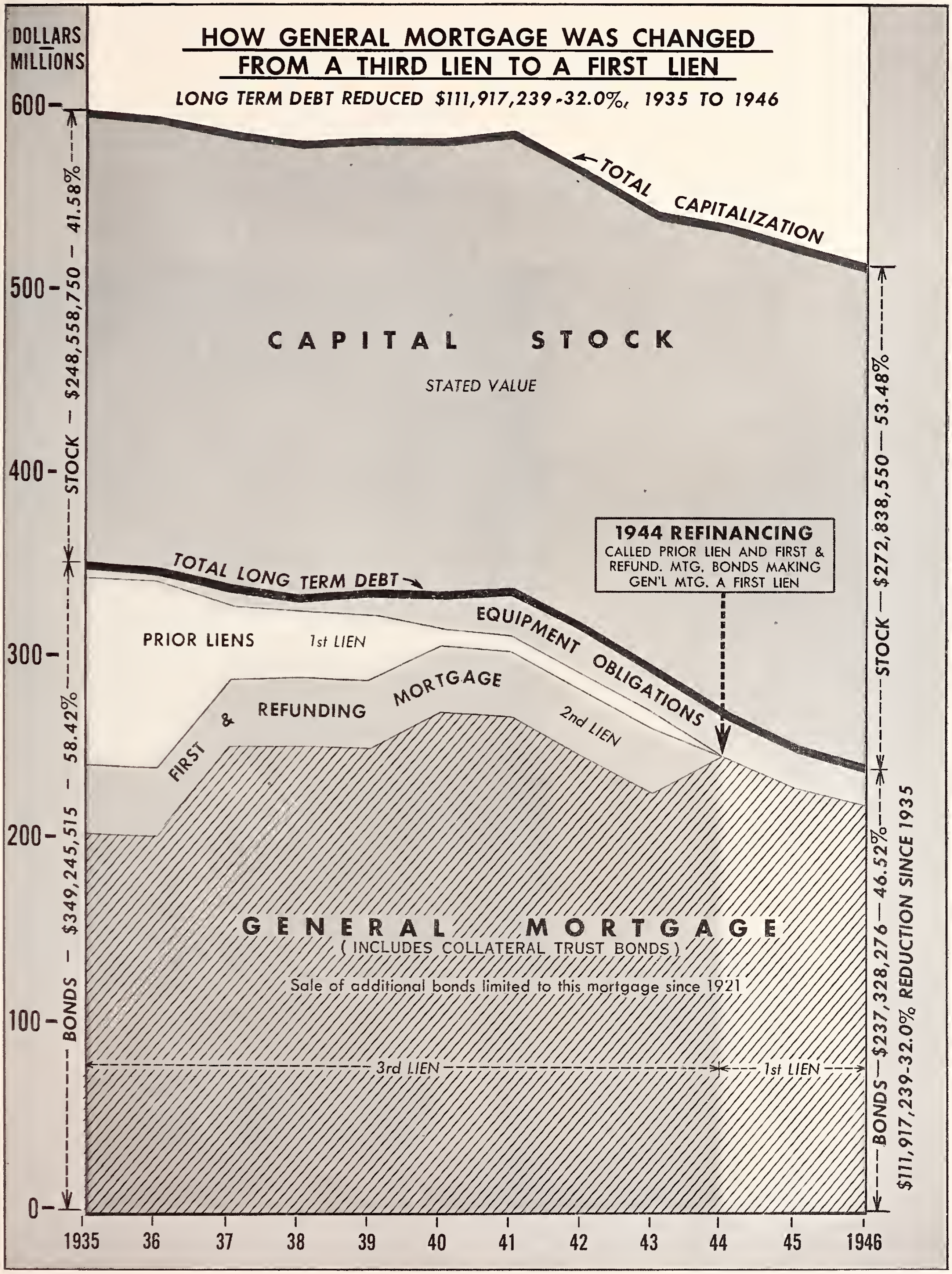
Courtesy, Southern Pacific Company

Fig. 98



Courtesy, Southern Natural Gas Company

Fig. 99

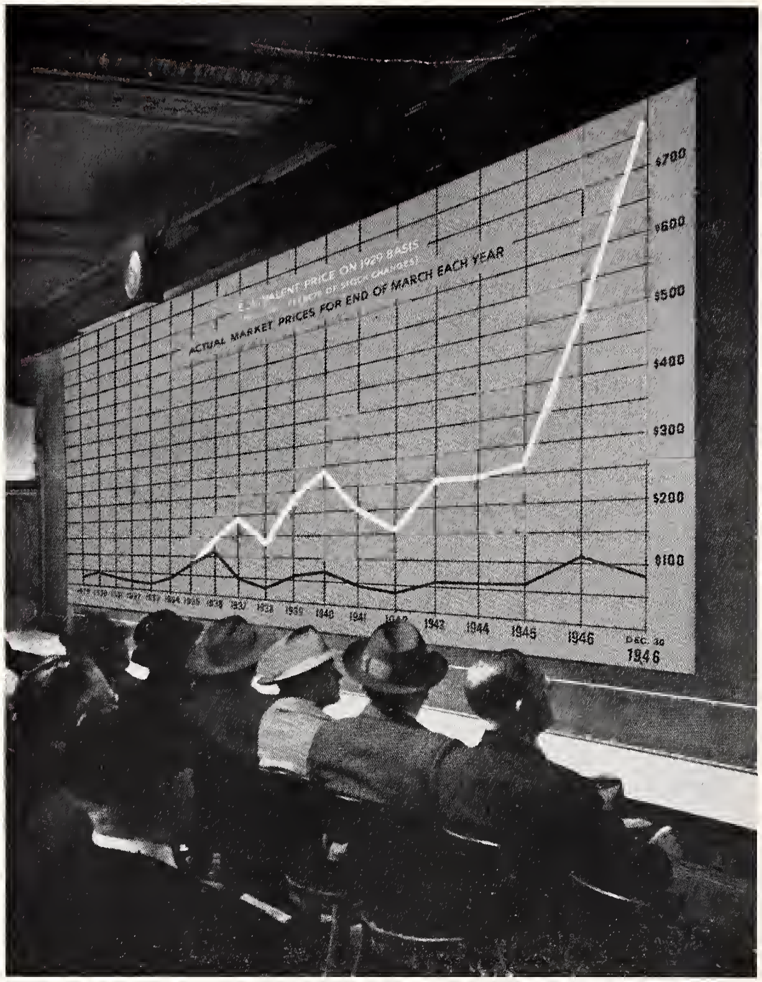


Courtesy, Great Northern Railway Company

Fig. 100

Price movement of the common stock from its first listing on the New York Stock Exchange in 1929 to the close of 1946 is indicated by the black line on chart at right. Prices are those of the last trading day in March of each year. White line on chart shows the comparative price for one 1929 share, taking into consideration the stock dividend of 33⅓% in 1935, a 3-for-1 split in 1936, 5% stock dividend and rights voted in 1939, rights in 1944, and a 2-for-1 stock split and rights which were authorized in 1946.

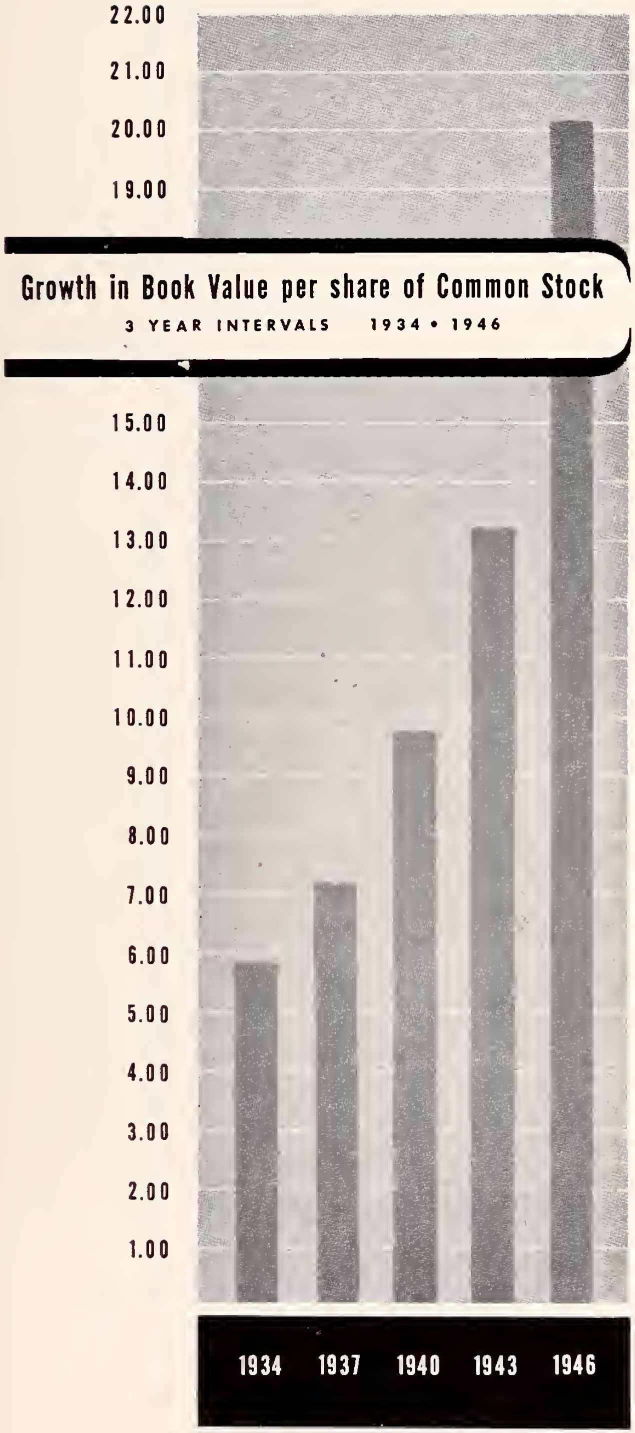
Photo courtesy FINANCE magazine



ACTUAL MARKET PRICES FOR END OF MARCH EACH YEAR
$700
$600
$500
$400
$300
$200
$100
1939
1940
1941
1943
1944
1945
1946
DEC. 30
1946

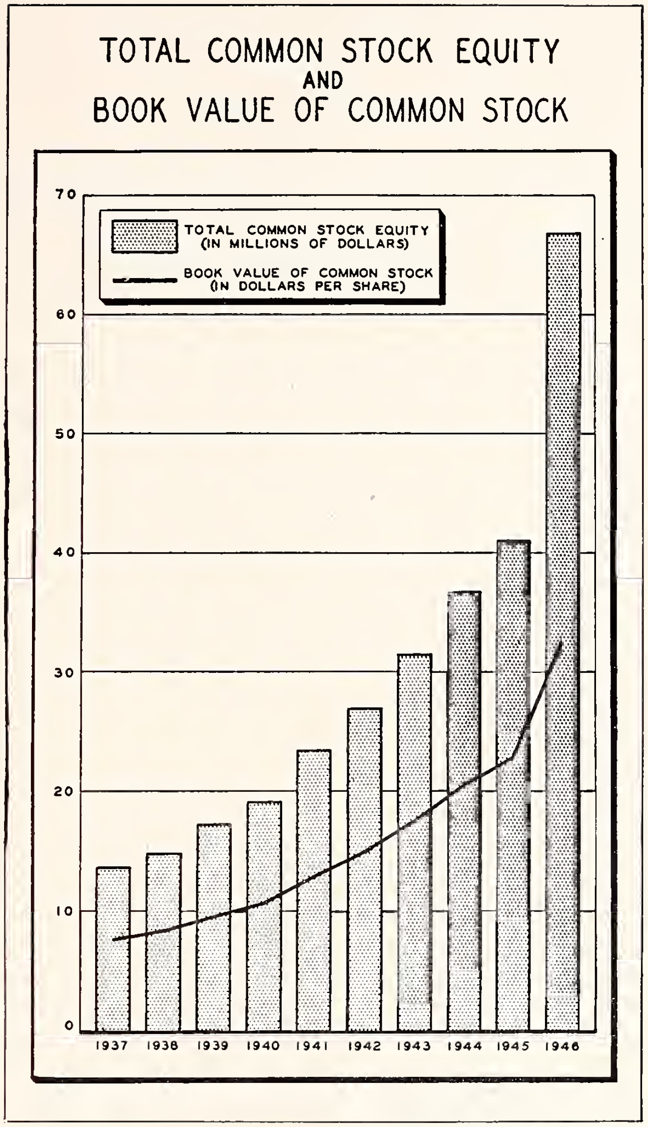
Courtesy, Abbott Laboratories

Fig. 101



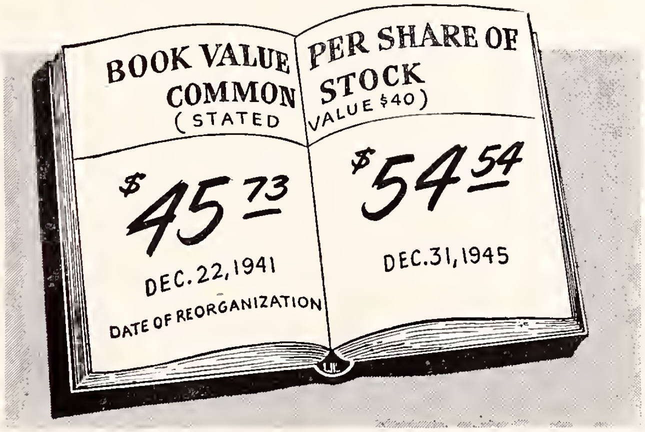
Courtesy, Hydraulic Press Manufacturing Company

Fig. 102



Courtesy, Allied Stores Corporation

Fig. 103


BOOK VALUE PER SHARE OF
COMMON STOCK
(STATED VALUE $40)
$45.73
DEC. 22, 1941
DATE OF REORGANIZATION
$54.54
DEC. 31, 1945

Courtesy, Erie Railroad Company

Fig. 104

REPORTING ON EMPLOYMENT, WAGES AND EMPLOYEE RELATIONS

The utmost care should be given to the treatment of employment, wages and employee relations in the annual report. The company's employees are its most important witness of the benefits of private enterprise. The report should give facts and explanations that help the reader to see the employees, managers and stockholders as a team, each making a necessary contribution, with no one group profiting at the expense of the other.

CHECKLIST FOR COMMENTARY ON EMPLOYMENT, WAGES AND EMPLOYEE RELATIONS

- Basic employee-relations policies.
- Comments on what charts included in the report show.
- Growth of the company:
  - (a) Number of employees at beginning and end of the year.
  - (b) Growth in number of employees over a period of years.
  - (c) Stockholders' investment per employee.
- Labor problems:
  - (a) Unions with which collective-bargaining agreements are in effect.
  - (b) Company's position in negotiations with union.
  - (c) Labor contracts in existence.
  - (d) Labor difficulties:
    - (i) Where shutdowns occurred.
    - (ii) How long they lasted.
    - (iii) Causes of the shutdowns.
    - (iv) Result of interruptions in operations (losses to employees and the company).
    - (v) Settlement of differences.
    - (vi) What increase in wages will cost the company.
  - (e) How company met manpower shortage.
  - (f) How company met lay-off problem.
  - (g) Guaranteed employment.
  - (h) Benefits of steady work.
  - (i) Hours of labor.
  - (j) Attitude of management toward labor.
- Salaries and wages:
  - (a) Trend of total wage payments over a period of time.
  - (b) Average hourly earnings compared with earlier periods.
  - (c) Average hourly earnings over a period of time compared with the Cost of Living Index of the Bureau of Labor Statistics over the same period.
  - (d) Any increase in efficiency to offset higher wages.
  - (e) Any decrease in efficiency.
  - (f) Extra compensation paid during the year.
  - (g) Proportion of labor cost to finished product. (See distribution of sales dollar, page 71.)
- Compensation of management:
  - (a) Salaries paid top management.
  - (b) Compensation under bonus plans.
    - (i) Outline of plan.
    - (ii) Payments made under the plan.
  - (c) Importance of management.
- Incentive compensation of bonus plans:
  - (a) How long in effect.
  - (b) What bonuses are granted.
  - (c) Who benefited during the year.
  - (d) What amount was distributed.
  - (e) Percentage reduction in year's earnings due to distribution.
- Key employees:
  - (a) Biographical sketches.
  - (b) Duties.
- Training:
  - (a) Who receives training.
  - (b) Type of training.
  - (c) How many in training.

  - (d) Educational opportunities.
  - (e) Promotion policy.

Suggestion plan:
  - (a) When established.
  - (b) How many employees received awards during year.
  - (c) Amount expended in awards during year.
  - (d) Cumulative figures since beginning of plan.

Vacations:
  - (a) Who receive vacations (factory and office employees).
  - (b) On what basis are vacations with pay given?
  - (c) Number who received paid vacations.
  - (d) Compensation paid while on vacations.

Safety:
  - (a) Company's efforts to increase safety.
  - (b) Number of days lost per million man-hours worked.
  - (c) Number of disabling injuries per million man-hours worked.
  - (d) Safety contests and awards.
  - (e) Results of campaigns.

Years of service:
  - (a) What anniversaries are recognized?
  - (b) Awards made.

Pension, profit-sharing, or stockownership plans:
  - (a) If new, essentials of plan.
  - (b) When established.
  - (c) Company's expenditure.
  - (d) Employees' contributions.
  - (e) Number pensioned during year.
  - (f) Amount of pensions paid during year.
  - (g) Other benefits paid under the plan.
  - (h) Expenditure under Federal Social Security.

Thrift plans—credit unions:
  - (a) When established.
  - (b) Essentials of the plan.
  - (c) Company's contributions.
  - (d) Trustee.
  - (e) Number of employees participating.
  - (f) Success of plans.

Group life insurance:
  - (a) If new, essentials of plan.
  - (b) Cost to company.
  - (c) Amount of coverage of policies held at end of year.
  - (d) Amount of benefits paid since plan was established.

Group hospitalization:
  - (a) If new, essentials of plan.
  - (b) Cost to company.

Recreational facilities:
  - (a) When established.
  - (b) What it consists of.
  - (c) Use being made of facilities.
  - (d) Changes.
  - (e) Number of people using facilities and attending events.

Personnel department:
  - (a) Employment procedures.
  - (b) Accomplishments.

Employee publications:
  - (a) Pamphlet about company.
  - (b) House organ (circulation, nature).
  - (c) Annual report to employees.

Special services:
  - (a) Medical and health.
  - (b) Restaurant.
  - (c) Legal.
  - (d) Home-ownership plans.
  - (e) As to each service:
    - (i) When established.
    - (ii) What it consists of.
    - (iii) Use made of services offered.
    - (iv) Company expenditure.

IDEAS FOR CHARTS AND GRAPHS

1. Number of employees at end of a period of years.
   - (a) Breakdown into men and women.
2. Total payroll over a period of years.
3. Average earnings (per hour, week, or year) per employee over a period of years.
4. Average hours per week worked per employee as compared with previous years.
5. Productive man-hours worked in manufacturing plants in specific years, in relation to years selected to represent 100%.
6. Comparison of trend of wages with:
   - (a) Salaries paid management.
   - (b) Sales.
   - (c) Cost of living.
   - (d) Prices of company's products.

- (e) Company earnings.
- (f) Dividends.
- (g) Revenue per ton-mile.
- (h) Revenue per passenger-mile.
- (i) Wages in industry generally.
- (j) Taxes.
- (k) Investment in tools furnished by shareholders.
- (l) Production.
- (m) Total operating expenses.

6a. Percentage of change in wage rates in manufacturing, by industry group, between two specific dates.
7. Capital invested per employee over a period of years.
8. Length of service of present employees.
9. Payroll cost per pound of product produced.
10. Pounds produced per payroll dollar over a period of years.
11. Accident records (number per 1,000,000 hours work; number of days lost per 1000 hours worked; compared with previous period).
12. Steps in development of company's industrial-relations program.
13. Employee benefits paid over a period of years.
14. Company's contributions to employee benefits.
15. Effect of Federal Income Tax on employee compensation at each $10,000 stage.

See pages 145 et seq. for examples of charts on the subject of this chapter. For other charts in which employment factors are graphically treated, see page 71.

IDEAS FOR STATISTICAL DATA ON EMPLOYMENT

Tables of figures relating to employment and employee relations are generally of two classes: (1) Those referring to number of employees and earnings, (2) those dealing with employee benefit plans. A number of examples of tabular matter dealing with employment are given below.

	19—	19—
Wages and Salaries:		
Total	$	$
Percentage of sales	%	%
Average number of employees		

The following table shows the number of hourly workers employed by the Corporation in the United States and wage payments to those employees:

	19—	19—	Increase
Average number of hourly rate employees in the United States only			
Wages paid to hourly rate employees in the United States only			

751 Employees of Corporation	December 31, 19— Number	December 31, 19— Percentage
Are engaged in the supervision of operations through six Departments	50	6.66
Are engaged in operating and maintaining the plant facilities	273	36.35
Are engaged in completing telephone calls	239	31.82
Are engaged in subscriber service and collections	51	6.79
Are engaged in billing, accounting, statistical and other clerical functions	138	18.38
Total	751	100.00

The following tabulation shows the trend of the straight-time hourly earned rates of — factory employees during the past few years, expressed in percentage terms and taking 19— as a base year.

	Hourly Wage Employees Straight-Time Hourly Earnings as % of 19—
19—	100.00%
19— (9 months)	
19—	
19—	
19—	
19—	
19—	
19—	

LENGTH OF SERVICE OF OUR EMPLOYEES

—%	5 Years and Over
—%	3 But Less Than 5 Years
—%	2 But Less Than 3 Years
—%	1 But Less Than 2 Years
—%	Under 1 Year
100.0%	

EMPLOYED IN	NUMBER OF EMPLOYEES						TOTAL WAGES AND SALARIES		
	End of Year			Average for Year					
	19—	19—	% Increase	19—	19—	% Increase	19—	19—	% Increase
Operations									
Construction									
Total									

EMPLOYEES AND WAGES
(United States only)

	Average Monthly Number of Employees Receiving Pay	Average Number of Hours Worked per Week	Total Payroll	Average Earnings per Hour
First quarter				
Second quarter				
Third quarter				
Fourth quarter				
Year 19—				
Year 19—				

19— - 19— — NUMBER OF EMPLOYEES, PAYROLL, HOURS AND EARNINGS

Year of Operation	Number of Employees	Total Payroll	Weekly Hours	Hourly Earnings	Weekly Earnings

COMPARISON OF STEEL PLANT WORKERS' EARNINGS WITH COST OF LIVING BY YEARS

			Average Hourly Earnings		Straight Time Average Hourly Rate		Cost of Living 19— - — = 100	
Year	Average Number of Employees	Average Yearly Earnings	Amount	% Increase Since 19—	Amount	% Increase Since 19—	Index	% Increase Since 19—

Comparison of Weekly Earnings in Production and Distribution of Gas by Regions With Seattle Gas Company and With Twenty-Seven Manufacturing Industries in United States

Region	Average Weekly Earnings*
United States (a)	$48.11
East (a)	46.65
South (a)	46.26
Middle West (a)	47.67
Far West (a)	53.29
Average for 27 Manufacturing Industries in United States (b)	55.82
Seattle Gas Company (c)	57.38

(a) Weekly earnings of employees in Production and Distribution Departments of gas companies, June 1945, by regions, as reported in National Industrial Conference Board "Management Record" for October, 1945.

(b) Weekly earnings of male employees in 27 manufacturing industries in United States, June, 1945, as reported in National Industrial Conference Board "Management Record" for August, 1945.

(c) Weekly earnings of Seattle Gas Company employees in Production and Distribution Department, June, 1945.

* Weekly earnings in all cases include overtime pay.

REPORTING ON EMPLOYMENT, WAGES AND EMPLOYEE RELATIONS

Number of Individuals Receiving Salaries of $10,000 or More Per Annum

The following tabulation shows the number of executives in various salary groups receiving salaries at the rate of $10,000 or more per annum as of December 31, 19—, whether or not included in the executive management group:

Amount of Salary	Number of Individuals as of December 31, 19—
$10,000 to $20,000	
etc.	
Total	

EXECUTIVE MANAGEMENT COMPENSATION

	19—	19—	19—
Number of Executives Included			
Per Dollar of Profits Earned for Stockholders			
Executive management salaries	$	$	$
Supplemental compensation under bonus plan			
Total	$	$	$
Per Share of Common Stock			
Executive management salaries	$	$	$
Supplemental compensation under bonus plan			
Total	$	$	$

(Earnings per share of common stock in 19— were $——, in 19— $——, and in 19— $——)

	19—	19—	19—
Per Dollar of Total Volume of Business			
Executive management salaries	$	$	$
Supplemental compensation under bonus plan			
Total	$	$	$
Per $100 of Retail Price of Products Sold			
Executive management salaries	$	$	$
Supplemental compensation under bonus plan			
Total	$	$	$
Per Dollar of Total Payroll			
Executive management salaries	$	$	$
Supplemental compensation under bonus plan			
Total	$	$	$

EMPLOYEE RELATIONS

The Company's program of industrial relations is summarized as follows:

Relief Fund—For disability not covered by Workmen's Compensation	
Number of employees who received benefits in 19—	
Amount paid in 19— for Relief Benefits	$
Group Insurance—Number of employees insured	
Amount of insurance	$
Amount of death and disability payments paid beneficiaries since inception of plan in 19—	$
Savings Fund—Number of employee depositors	
Amount of deposits	$
Average amount per depositor	$

The Company guarantees the return of principal and interest to employee depositors, and carries reserves therefor.

Annuity Trust—Employees on retirement roll at December 31, 19—	
Payments made in 19— to retired employees	$

The total expenditures by the company in 19— under employee benefit plans, together with additional amounts payable by the company for social security taxes and other statutory payments, are as follows:

Expenditures Under		Amount
Company Plans (disability benefits, life insurance, pensions, vacations, etc.)		$
Federal and State Statutes:		
Social Security Act (unemployment insurance and old age benefits)	$	
Workmen's Compensation Laws (occupational disability benefits)		
Total		$

TRUSTEE'S REPORT OF PENSION TRUST FUND ESTABLISHED BY —— COMPANY

Balance in Fund—December 31, 19—		$
Additions to Fund During 19—		
Payment into fund by company	$	
Interest revenue, including gain or loss on investments disposed of		
Total Additions	$	
Disbursements for Pensions During 19—		
Net Increase in Fund		
Balance in Fund—December 31, 19—		$
Comprised of—		
4% Demand note of —— company		$
Bonds of —— companies		
U. S. Government obligations		
Public utility, railroad and industrial bonds		
Cash and accrued interest not due		
Total		$

Note: Securities are shown on amortized basis.

—— Trust Company, Trustee
By ——
Trust Officer.

FIFTEEN YEAR RECORD

		GROUP INSURANCE			SAVINGS FUND		
Year	Relief Dept. Benefits Paid During Year	Amount of Insurance End of Year	Total Benefits Paid During Year	Number People Insured	Balance End of Year	Interest Paid During Year	Annuity Benefits Paid During Year

Employees' Pension and Benefit Plan

During the year 19—, pensions and benefits were paid in —— cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to $—— divided as follows:

	No. of Cases	Amount
Service Pensions		$
Disability Pensions		
Accident Benefits (including expenses)		
Sickness Benefits		
Death Benefits		

Since the adoption of the Bonus Plan by the stockholders in 19—, a bonus fund has been distributed out of net earnings for seven fiscal years as follows:

Year	Number of Individuals	Amount

Year	Tons Mined Per Compensable Accident	Tons Mined Per Fatality
19—		
19—		
19—		
19—		
19—		

EXCERPTS FROM COMMENTS ON EMPLOYMENT, WAGES AND EMPLOYEE RELATIONS

The excerpts given below have been selected because they attempt to make the reader understand the philosophy of private enterprise. The excerpts also meet the tests of clarity, good tone and telling something beyond what is evident from the financial statements. Some of the quotations have been taken out of their texts; they are not complete treatments of the subject. Other illustrations from reports to employees are given in Chapter 18.

The importance of private enterprise

Owners of the company, the stockholders, are interested in the prospects for future dividends on their money invested in Murray. That money makes jobs. Incidentally, that money is equivalent to approximately $4,100 for each employee, and is represented by plants, equipment and working capital, which would not be productive without the driving power of people who have the know-how.

Employees, hourly and salaried, invest their time and energy and receive pay envelopes for their efforts. The employee is concerned with the future of his job, which is his livelihood. Those in positions of supervision and management are trustees, representing the employees and the stockholders. These three groups have identical interests in the prosperity and the success of the Company—an unbeatable team, when each does its part and plays the game, giving the best it has to the job. [*Murray Corporation of America*]

Why a sound basis for wage payments is essential

A sound basis for wage payment is essential to the welfare of everyone. Regardless of whether a person be an employee or stockholder owner in any individual situation, he is always a customer of many others who supply him with products for his business and his personal living. As a customer he wants fair prices for what he buys; as an employee he wants the fair value of his services with due regard to the applicable cost of living; and as a stockholder he wants a fair return on his investment.

Unless all concerned receive reasonable benefits from the operation, all are eventually adversely affected. No one of the three groups can long benefit at the expense of the others. If wages or profits of owners are so high as to produce a selling price for the product unattractive to potential customers, they will not buy; and when that happens, employment and profits decline to the detriment of both employees and stockholders. Prices which stimulate increased demand create higher employment and greater opportunity for employees in the expanded operation.

But selling prices over a period must contain a profit which is sufficiently attractive to encourage business owners to supply the necessary capital for expansion; otherwise there is not inducement to invest or expand.

If wages are too low, then employees leave their employment for better jobs, which results either in reduced operations or employment of less skilled people, neither of which benefits the employer. [*Caterpillar Tractor Co.*]

Management's aim with regard to its employees

Democracy Demonstrated

Democracy at its best is demonstrated in our relations with our employees. I firmly believe that every man and woman working for Brown & Bigelow has the opportunity to grow and expand his or her capacity in proportion to his or her ability. There is room at the top for any individual who has the ability and desires to get there.

I believe that the Brown & Bigelow employees, numbering over 3400 in the factory and Home Office alone, appreciate the fact that they are not "lost in the shuffle." I know that they work hard for advancement, and I am glad indeed that so many were advanced during 19—.

It is probably because I started in this business as a bench worker in the factory, that I am so happy to see the spirit of cooperation which exists within our organization. When I see the respect paid our veteran craftsmen by our customers and sales organization, I am proud that democracy is in action at Brown & Bigelow.

During the year, high wage standards prevailed; vacations with pay for eligible employees were given, and every employee participated in the bonus distribution which totalled well over $1,000,000 for the year. These bonuses expressed to the men and women who received them, a little of Management's attitude to the employees who keep the wheels turning.* * *

Part of our feeling toward our fellow-workers is expressed by the various types of group life, medical and hospitalization insurance which is available for the protection of our employees both in the plant and in the field. This insurance is eagerly accepted and very widely held.

The health of every man and woman working in Brown & Bigelow is of prime importance to Management. We have a complete, modernly equipped first aid and hospital room, staffed night and day by eleven registered nurses. Their professional care has already cut to a minimum lost working time due to illness.

A completely equipped physio-therapy department ministers to the health of employees. Here, courses of corrective exercises have improved the health of many employees, and much is done to relieve fatigue, nervousness and tension that result from these too-crowded work days.

Our Safety Education program, pointed up this year, has cut down our accident rate. This improvement is recognized by our receipt of the Minnesota State Safety award.

Our Cafeteria has increased its efficiency and now serves about 2,000 meals a day.

These are some of the things that come under the heading "Employee Relations." But more important I believe, is the attitude among all of us in the plant.

I am delighted when a man pays off the mortgage on his home. I am pleased when a youngster starts college. I am eager to have every Brown & Bigelow employee, and the family of every employee, get more of the good things of life.

That has always been my aim, since I first became associated with the company so many years ago. It will continue to be my aim—because I believe those who contribute their brains, muscle and heart to this business should be the first to profit from it. [*Brown & Bigelow*]

"Ability to pay" as a basis for determining wages

We believe this [ability to pay] to be a thoroughly unsound factor in determining a company's wage level. It would mean that a prosperous company would pay higher wages for a given kind of work than would a less prosperous company. It would mean that wages, which have steadily risen in this country, would be adjusted to profits, which have sharp fluctuations, and this would obviously be harmful to the American worker. It would mean, finally, that with a Government agency determining a company's ability to pay, the basic authority of management, essential for free enterprise, would be destroyed.

The Company has, therefore, consistently declined to discuss "ability to pay" or to admit its validity in connection with the determination of wages. The following excerpt from the Company's letter of January 21st to the Secretary of Labor acknowledging receipt of the Panel report, explains our position:

"The Panel has dealt at length with the question of 'ability to pay.' On this point the management of this Company has not altered the position expressed in our telegram to the Chairman of the Panel on December 21st, namely: that 'ability to pay' is not a proper criterion of the fairness of a company's wage levels and that the maintenance of a tie between wages and earnings 'would cause wages to fluctuate up and down in the extreme and unpredictable manner characteristic of earnings' and 'would lead inevitably and rapidly to a rigid government control of industry.'

"For example, in determining 'ability to pay,' the first question which the Government agency will have to ask is: What is a proper profit for a company to make? Then, if wages are based upon this profit, the Government presumably will be under a responsibility to see that the profit is realized, by controlling the prices charged to the public. Thus the free enterprises of America would ultimately operate with a fixed rate of return and fixed charges to the public. There would be little incentive for one company to do better than another, or for any one to undertake new ventures which almost invariably involve great risk. It is hardly necessary to point to the consequences which this would have in retarding America's industrial progress and lowering its standard of living."

Working conditions in the oil industry have set an unusually high standard, and the relationship between management and employees has been exceptionally good. It is significant that in its report, the Oil Fact Finding Panel stated:

"The petroleum industry is admittedly a high wage industry. The average gross hourly earnings of all manufacturing industry in July, 1945, was 103.3 cents per hour. As of the same date, the average gross hourly earnings of the petroleum industry was 128.1 cents per hour."

We look forward to a continuance of this high wage standard, and are confident that, with sincerity and good will on both sides, management and employees in this industry can work out their problems successfully by free collective bargaining. [*Socony-Vacuum Oil Co.*]

Policy in negotiating with unions

All agreements with unions during 19— involving wages, hours of work, and other conditions of employment were reached through collective bargaining. In negotiating these agreements and in all its dealings with employees, the management followed its long established policy embodying five major objectives:

1. To compensate employees adequately.
2. To provide continuous employment.
3. To establish good working conditions.
4. To place employees in positions best suited to their abilities and encourage them to advance.
5. To maintain relations in a spirit of friendliness and coöperation.

Operating problems were solved constructively through labor-management meetings inaugurated several years ago. Throughout the year these meetings again demonstrated their value as a means of providing the organization with a clear understanding of the interdependence of the three elements of American industry—stockholders, employees and customers. [*The Ruberoid Company*]

Union Representation

In all of the fifteen operating plants of the Company in the United States, employees are now represented by unions. Bargaining rights are exercised by twenty-one different local unions, of which fifteen are affiliated with the American Federation of Labor and six with the Congress of Industrial Organizations.

Maintenance of membership in a union was a condition of employment for all union member employees in three plants at the beginning of 19—, continuing from the war period, when the War Labor Board considered this type of union security to be expedient. Your Company, however, regarded this provision as a restriction on a man's freedom to work, and insisted on eliminating it when negotiations were opened for new contracts at the three plants in question. Strikes of several months' duration resulted at two of these factories, Beaver Falls, Pennsylvania, and Pittsburgh, Pennsylvania, but when agreements were finally signed, maintenance of union membership was not included. [*Armstrong Cork Company*]

Wages and Salaries

It is the opinion of the Directors of this Company that general increases in wages and salaries must be based upon the ability of industry to absorb such increased labor costs without raising prices or jeopardizing the interests of investors. Such increases should represent the employees' fair share of cost savings effected through greater productive efficiency. The public and owners of the enterprise should also benefit from such improvements in production by means of reduction in selling prices and reasonable increases in dividends.

The practice since the war has been to grant salary and wage increases entirely out of proportion to industry's capacity to absorb them. The inevitable result, as exemplified by recent developments, has been increased prices. This price spiral has aggravated the inflation that is causing so much hardship, particularly to those with fixed incomes, and that is making the future of industry and employment most uncertain.

Despite the belief that the current trend is basically unsound, the company will adhere to its policy of setting wages and salaries equal to those paid by comparable companies in this area. It is, therefore, our plan to notify employees on June 1 of the changes that will be made in the maximum and minimum rates for various employment classifications. An interim period is required in order that we can learn how generally and to what extent metal fabricators of about the size of our company will follow the pattern that has been set up by steel mills and several other industries. In our type of industry the relation of wages to the value of the product is high and increases in wages and salaries paid consequently have an important effect on costs and profits.

Regardless of possible adjustments in the wage scale, the company is constantly analyzing the operations of the Signode Profit Sharing Plan in order to make certain the employees participate in the company's earnings to an extent that makes them partners with the shareholders. With this objective in mind, the Directors of the Company recently authorized revision of the formula used in computing the company contribution to the Trust Fund. Under this provision, which is subject to approval by the Commissioner of Internal Revenue, the Company will pay 20%, instead of the present 15½%, of its profits after Federal Income taxes, preferred stock dividend requirements and 25¢ per share on common stock. [*Signode Steel Strapping Company*]

Executive Compensation

One of the major problems of corporations today is to attract and hold men of outstanding managerial ability, and to provide them with incentive to greater effort and assumption of larger responsibilities. Financial reward alone is not the complete incentive. Love of work, pride in accomplishment, and the associations with others are also important incentives to individual progress. However, while not the sole factor involved, in most cases financial reward must be, of necessity, the greatest single attraction and incentive. Higher position creates heavier financial burdens for the incumbent.

The difficulty of solving this problem has been seriously magnified in recent years by the progressively mounting rate of income tax on increases in compensation. In order to reward an employe fairly and adequately for the assumption of increased responsibility, his nominal or gross compensation must be increased by a far greater amount than was previously considered appropriate, to enable him to defray an important part of his greatly increased taxes as well as his other enlarged expenses. Without such treatment the incentive to advancement to more important position is materially lacking.

The chart following [see page 148] shows in graphic form, the rapidly widening discrepancy between nominal or gross compensation and net benefit. For example, under the assumptions noted on the chart, an employe receiving $10,000 gross compensation retains $8,300 after personal income taxes, whereas the employe receiving $50,000 gross compensation, five times as much, retains about $26,200, or only three times as much. In order to increase by $10,000 the net compensation of an employe who is now receiving $26,200, to compensate him adequately for the increased responsibility resulting from an important promotion, it would be necessary to increase his nominal, or gross, compensation from $50,000 to $90,000 per year—an increase of $40,000, or four times the additional net compensation derived by him. . . . [*E. I. Du Pont de Nemours & Co.*]

Plant shut-downs

The Company's steel division plant, located at ——, —, was completely closed down for 52 days, 45 of which were due to the industry-wide steel strike and 7 of which were occasioned by an unauthorized "wildcat" strike. These work stoppages occurred during January, February and March, almost completely paralyzing first quarter operations.

The Company's wire and cable plant, located at ——, ——, was down for 30 days during 1946, all of which were occasioned by power company strikes occurring in February, September and October.

Partial shut-downs occurred in the wire and cable division in February due to gas shortage, and in May, over an eight-day period, due to railroad embargo occasioned by the coal strike. Similar partial shut-downs occurred in the steel division covering four weeks (two weeks in each June and July) due to inability to procure scrap, which is the main raw material used in this plant.

Thus, over the entire twelve-month period the Company had only four months of uninterrupted operations.

Losses in wages to our employees by reason of the work stoppages listed, plus other, less important stoppages, aggregated approximately $1,000,000. No attempt is made to estimate the overall loss to the Company in profits, but the amount is large—much larger than would be indicated by taking into consideration only the number of days the plants were shut down. This is because of the obvious fact that without continuity of operations, satisfactory results cannot be obtained. No manufacturing plant—certainly none engaged in the production of durable goods—can produce satisfactorily when operations are being interrupted frequently and unpredictably. [*Copperweld Steel Company*]

Selection of employees for junior staff positions

A word about personnel. One of the most difficult tasks facing all management is to find competent people to carry on the important phases of the business. We enjoy the finest of employee relations: we have had no labor trouble whatever. We have pursued a liberal policy, not only in wages but in other social benefits, which makes for loyal and efficient workers. One reason we have succeeded in maintaining the morale of our personnel has been the unusual character of our plant managers and their associates. To back them up, therefore, and to be certain of competent, well-trained men for the future management of the business, we have paid and shall continue to pay particular attention to the selection of young men for junior staff positions. We have a rather young general staff and, in my opinion, that augurs well for the future. [*Bristol-Myers Company*]

Keeping employees informed of company problems and policies

The Company has continued its monthly magazine "GETnews" as a method of disseminating information to its employees. This also serves as a medium for acquainting personnel throughout the Company with each other, and with activities over the property.

An information program has been instituted as a means of informing employees of the problems facing the Company and of company policies, as well as a method of better training them to properly contact the public and perform their specific jobs. This has taken the form of a series of lectures, and of tours over the principal plants and installations of the Company. [*South Carolina Electric & Gas Company*]

Vacations

Thirteen thousand three hundred and nine —— employees received paid vacations in 19—. Salaries and wages paid to employees while on vacation amounted to nearly one million dollars. Our vacation plan provides that all our workers with one or more years' continuous service receive paid vacations of one, two, or three weeks as determined by the number of years they have been with the Company. [*Cudahy Packing Company*]

An introduction to Employee Benefits section

One of the reasons why your company has so many long-time employees, ranging in service from five up to forty and more years, is that people find Goodyear a friendly place in which to work. This has long been a primary aim of management and is implemented by numerous company-sponsored and assisted programs designed to promote the happiness and welfare of Goodyear folks at all times. These include: . . . [*Goodyear Tire & Rubber Company*]

Why Employee Benefits are offered

These benefits, together with regular employment, promote a sense of security and encourage the employees in their civic, social, and economic development. Thus, they become better citizens of their communities and gain more satisfaction and enjoyment than might be possible in less favorable employment even at higher wages. [*Wisconsin Power & Light Co.*]

How a retirement plan influences employment policy

One of the best things about a retirement plan is that it compels forward thinking and planning on executive replacements. Provision must be made so there will be a steady strengthening of talent throughout the organization to keep pace with our growth and opportunities. Since introduction of the plan, our management has intensified training of juniors and assistants. During the past year, several promotions were made from within the company and several positions were filled from without. As in the past, we will seek young and outstanding recruits for this growing business wherever we may find them—preferably within the company. [*West Virginia Pulp & Paper Co.*]

A first report on group hospitalization

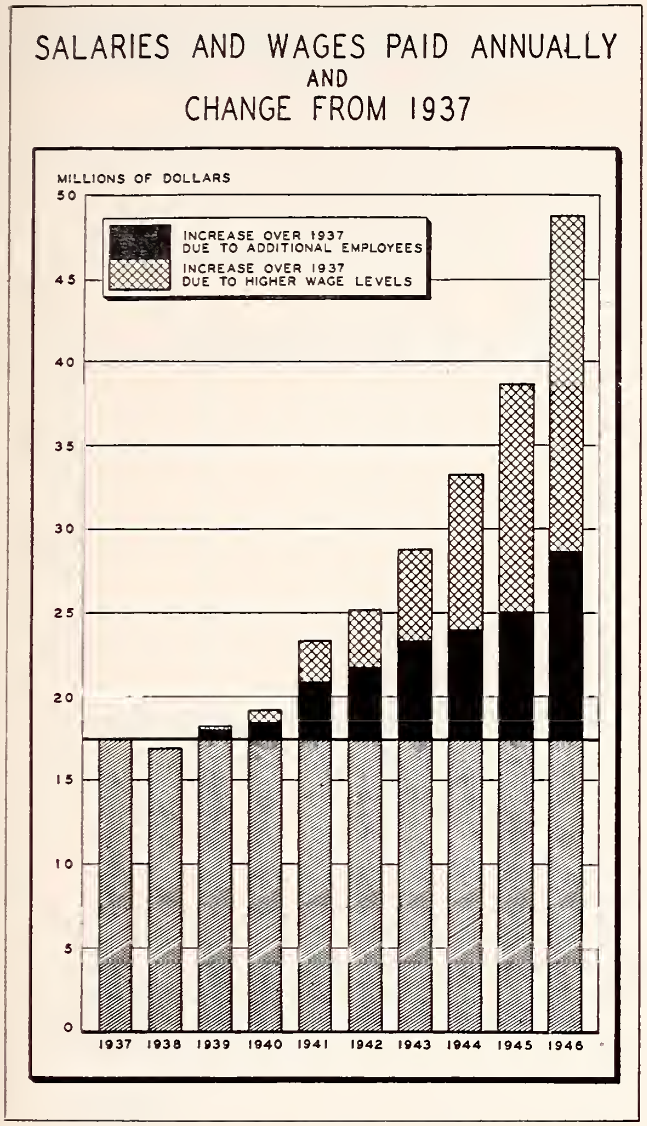
Latest addition to the list of employee benefit plans is a Contributory Group Hospitalization and Surgical Benefits Program. The fact that hundreds of employees throughout the organization had joined local hospitalization plans offering varied types of protection indicated a strong demand for one general group program that would provide uniform benefits and could be supported by the Company and employees together. So arrangements were made with an insurance company to underwrite such a contributory plan.

The plan was announced late in December and has met with such ready acceptance that more than 90 per cent of the personnel now hold membership in it. Benefits of the plan, payable anywhere in the world, include broad protection for employees and their dependents against hospital charges for bed and board, and certain extra expenses, and against surgical and obstetrical fees. The annual cost of the program, which is to be borne jointly by the Company and employees, will be determined by the extent to which benefits are required, i.e., the actual financial experience of the underwriter. For the first full year, the Company's share of the cost is estimated at $250,000. [*Armstrong Cork Company*]

Safety and accident prevention

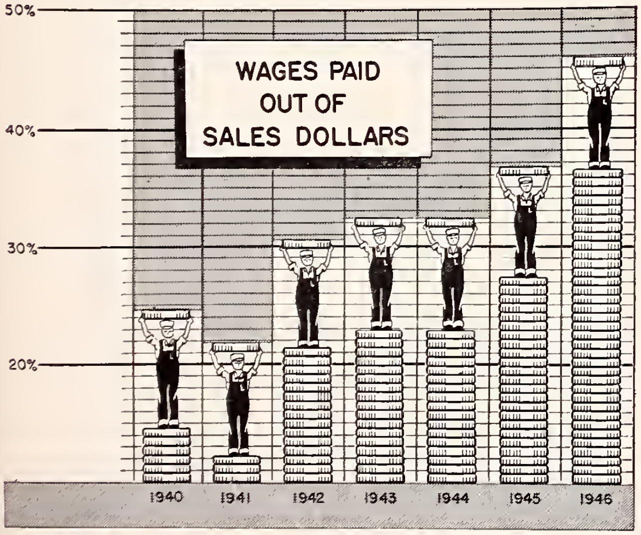
In co-operation with the National Safety Council and State Government Departments, all Units and Divisions of the Corporation maintain permanent safety programs. Continuous vigilance on the part of operating and engineering staffs has enabled the Corporation to attain high standards of safety in all its plants.

Since 1925, when the Corporation's Safety Award Plan was established, 487 awards have been made in 65 plants and offices throughout the country in recognition of one year of continuous operation, or one and one-half million labor-hours worked by employees, without accidents causing loss of time for work. During 19—, 15 plants worked the entire year without a reportable accident; while one plant extended its record of continuous operation without an accident to 18 years. As in previous years, a number of the plants also won recognition in various national, State and local safety contests and campaigns. [*Union Carbide & Carbon Corporation*]



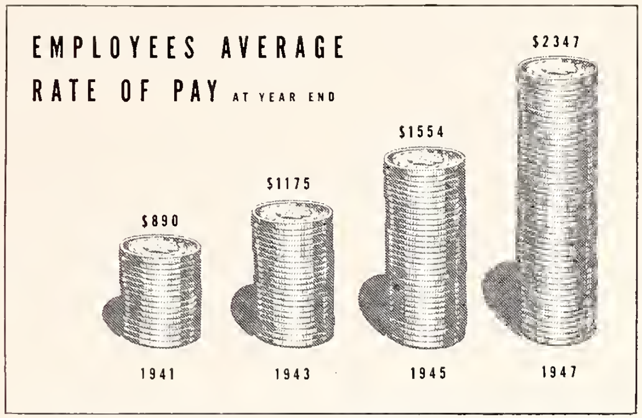
Courtesy, Allied Stores Corporation

Fig. 105



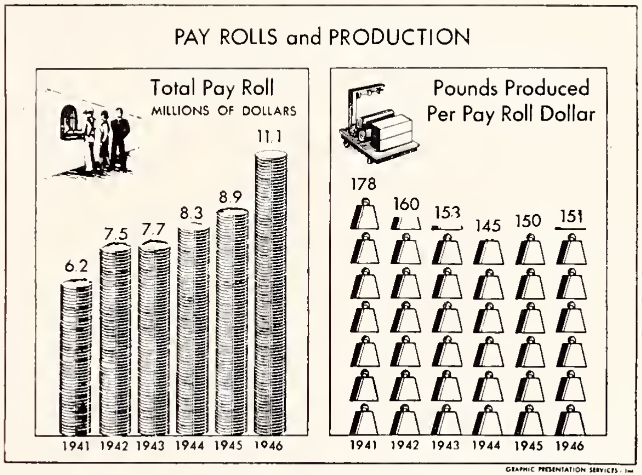
Courtesy, Snap-on Tools Corporation

Fig. 106



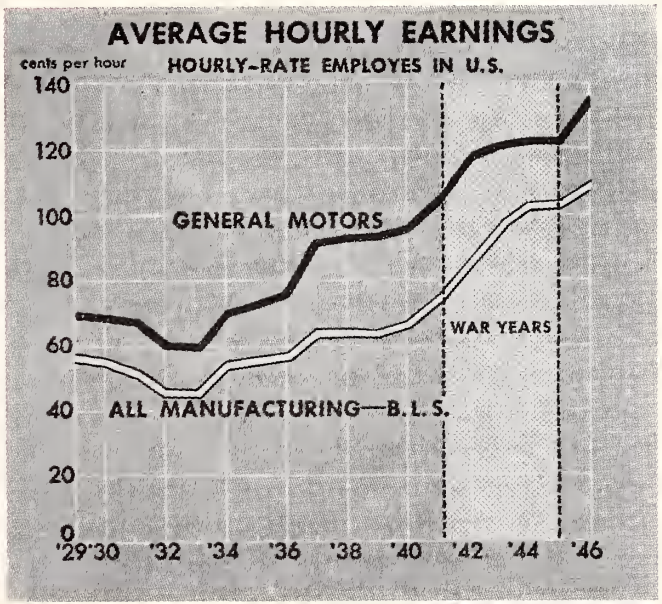
Courtesy, The Duplan Corporation

Fig. 107



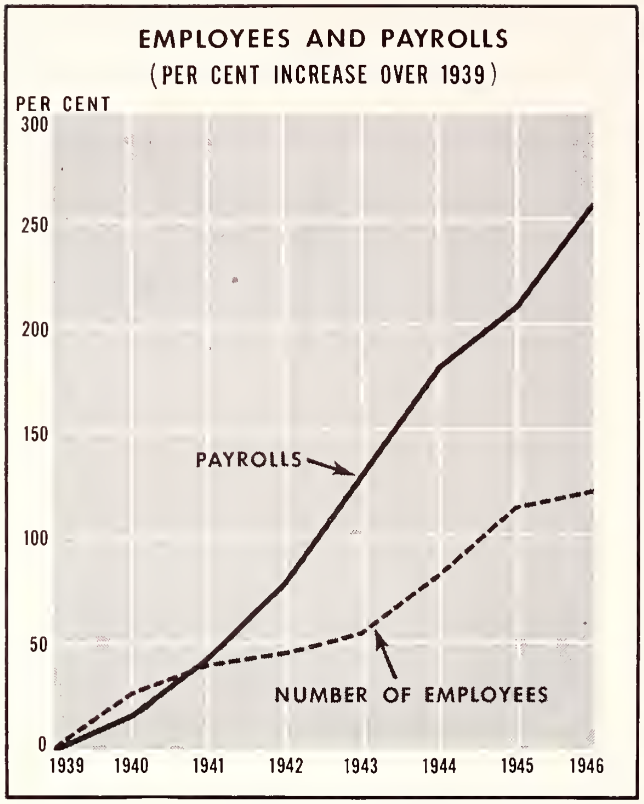
Courtesy, The Ruberoid Co.

Fig. 108



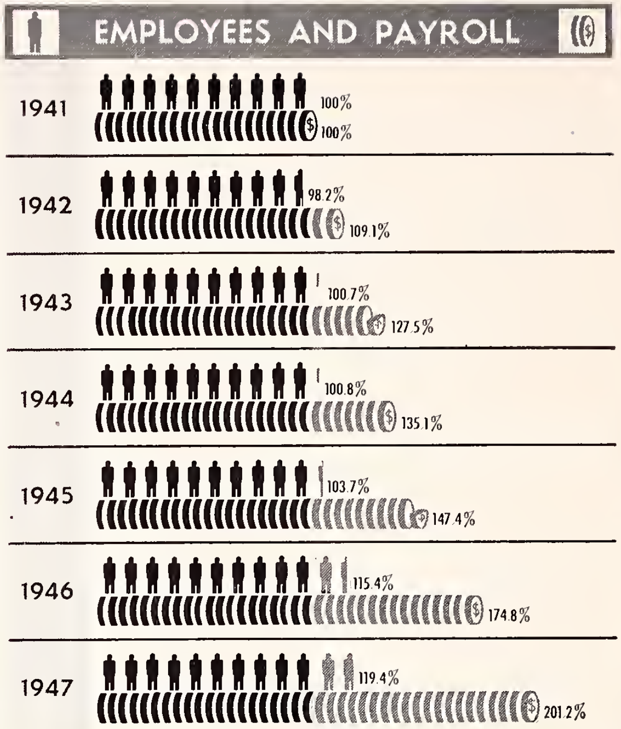
Courtesy, General Motors Corporation

Fig. 109



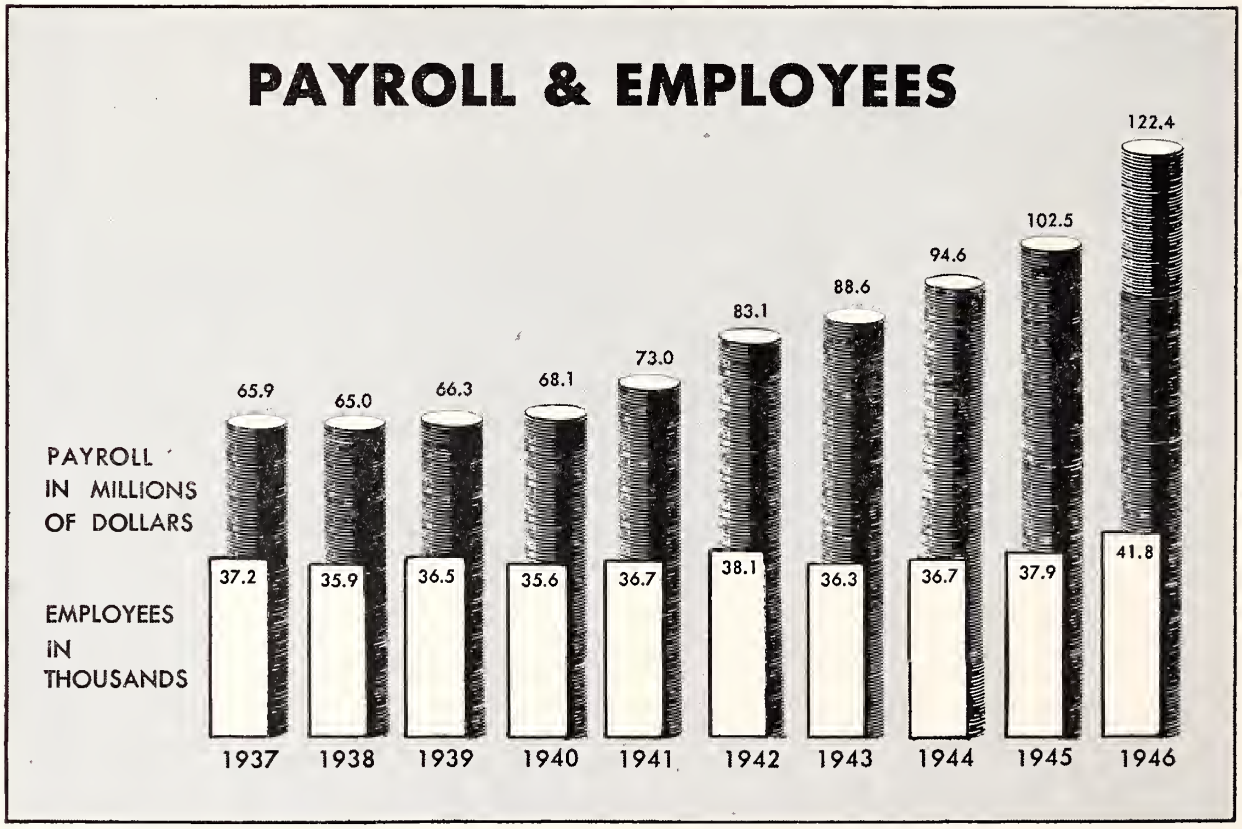
Courtesy, General Analine & Film Corporation

Fig. 110



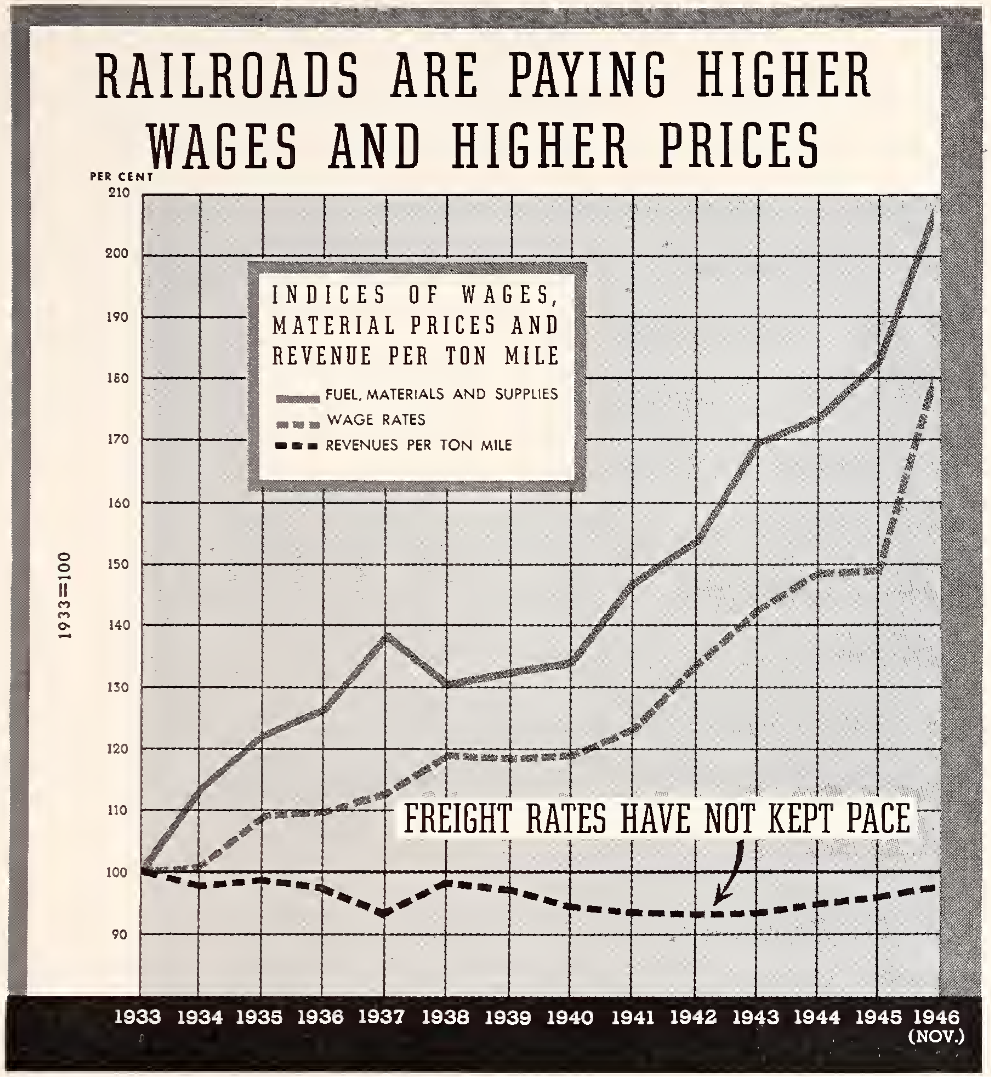
Courtesy, McKesson & Robbins Incorporated

Fig. 111



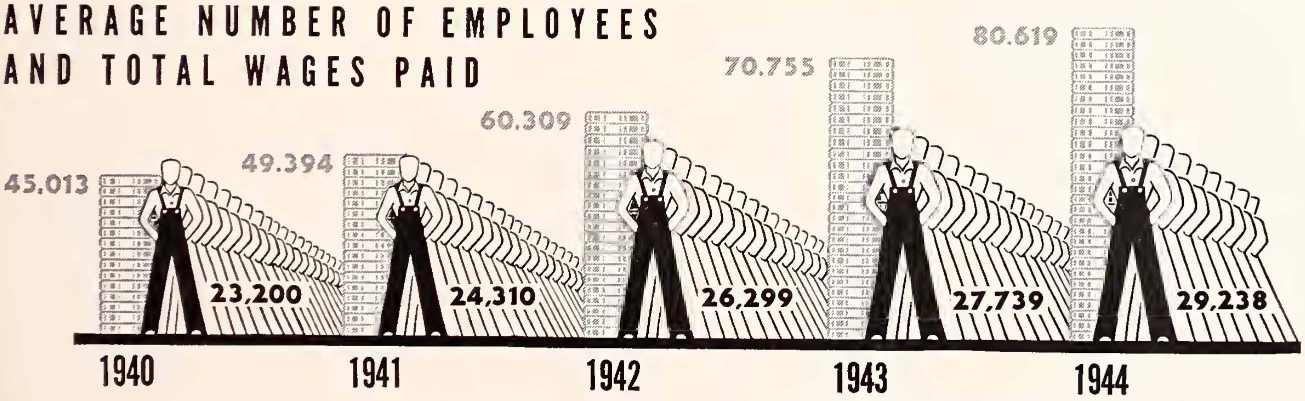
Courtesy, National Dairy Products Corporation

Fig. 112



Courtesy, The Chesapeake and Ohio Railway Company

Fig. 113



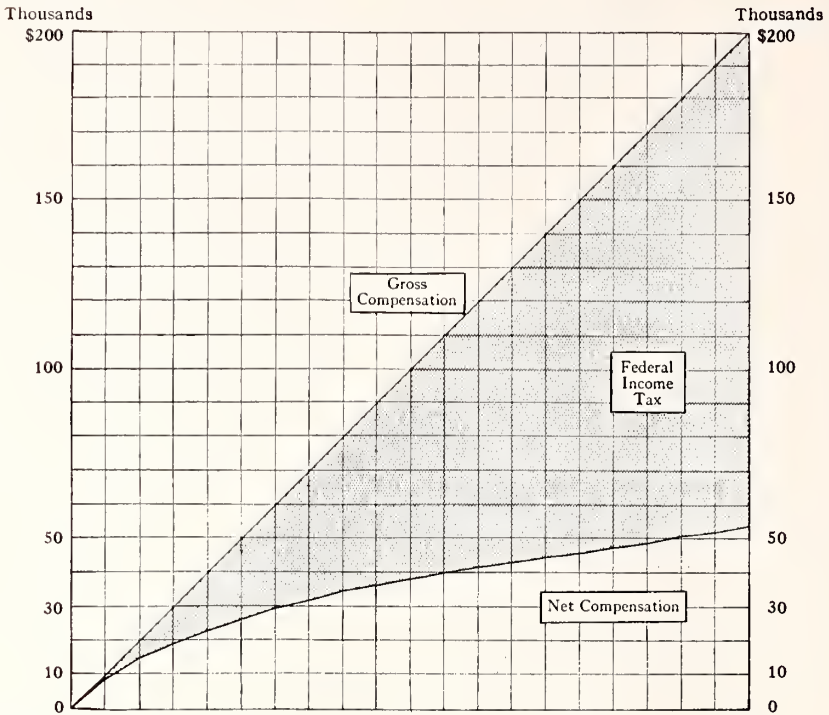
(RED FIGURES IN MILLIONS OF DOLLARS)

Courtesy, The Chesapeake and Ohio Railway Company

Fig. 114

Effect of 1946 Federal Personal Income Tax on Employe Compensation at Each $10,000 Stage

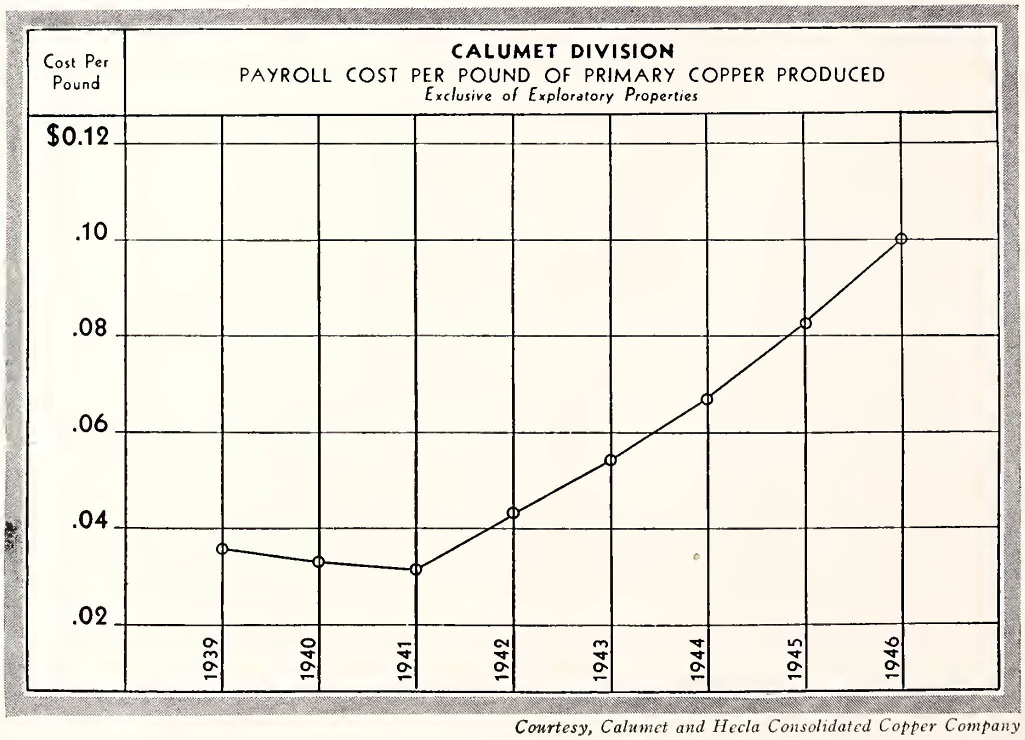
(Assuming married man with two children, optional standard deduction of $500)



Gross Compensation	0	$10.0	$30.0	$50.0	$100.0	$150.0	$200.0
Federal Tax		1.7	11.1	23.8	61.9	104.1	146.8
Net Compensation		$ 8.3	$18.9	$26.2	$ 38.1	$ 45.9	$ 53.2

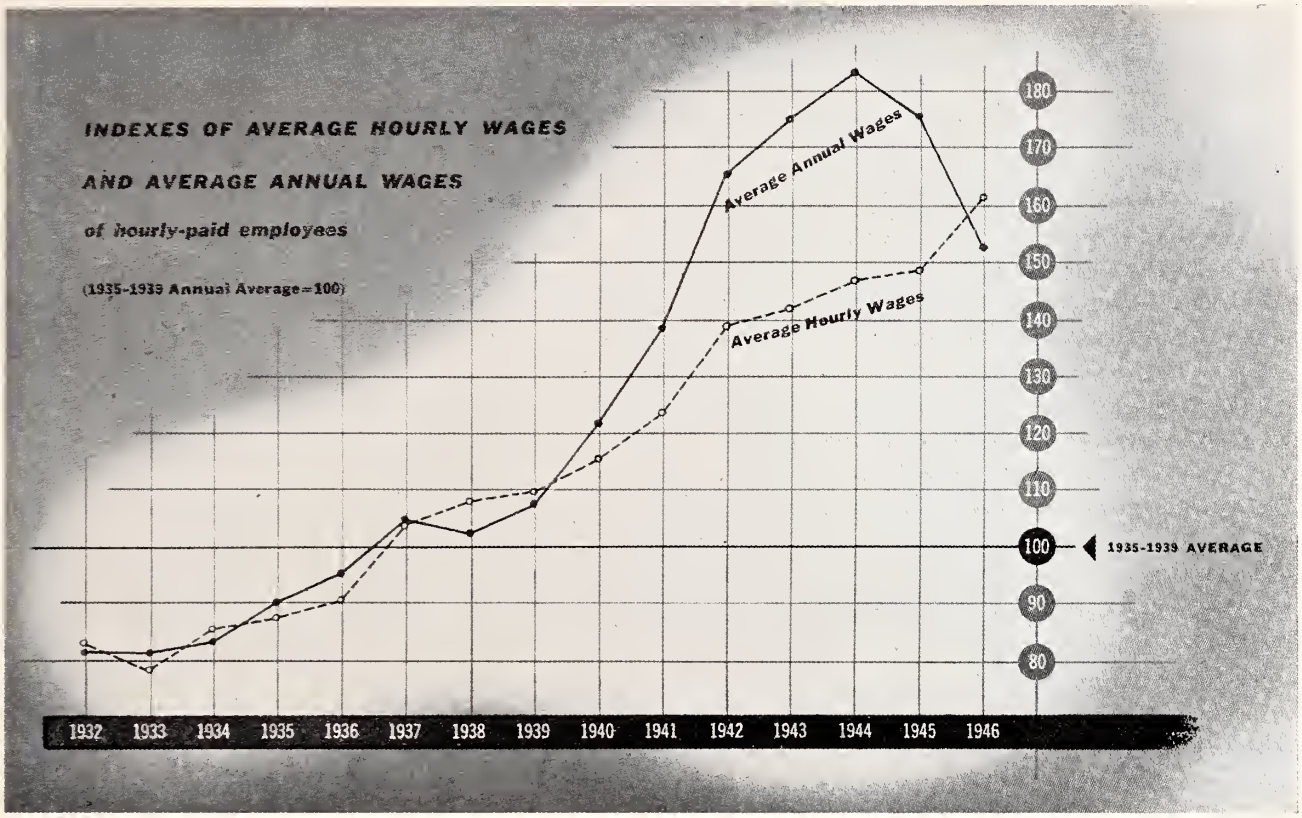
Courtesy, E. I. Du Pont de Nemours & Company

Fig. 115



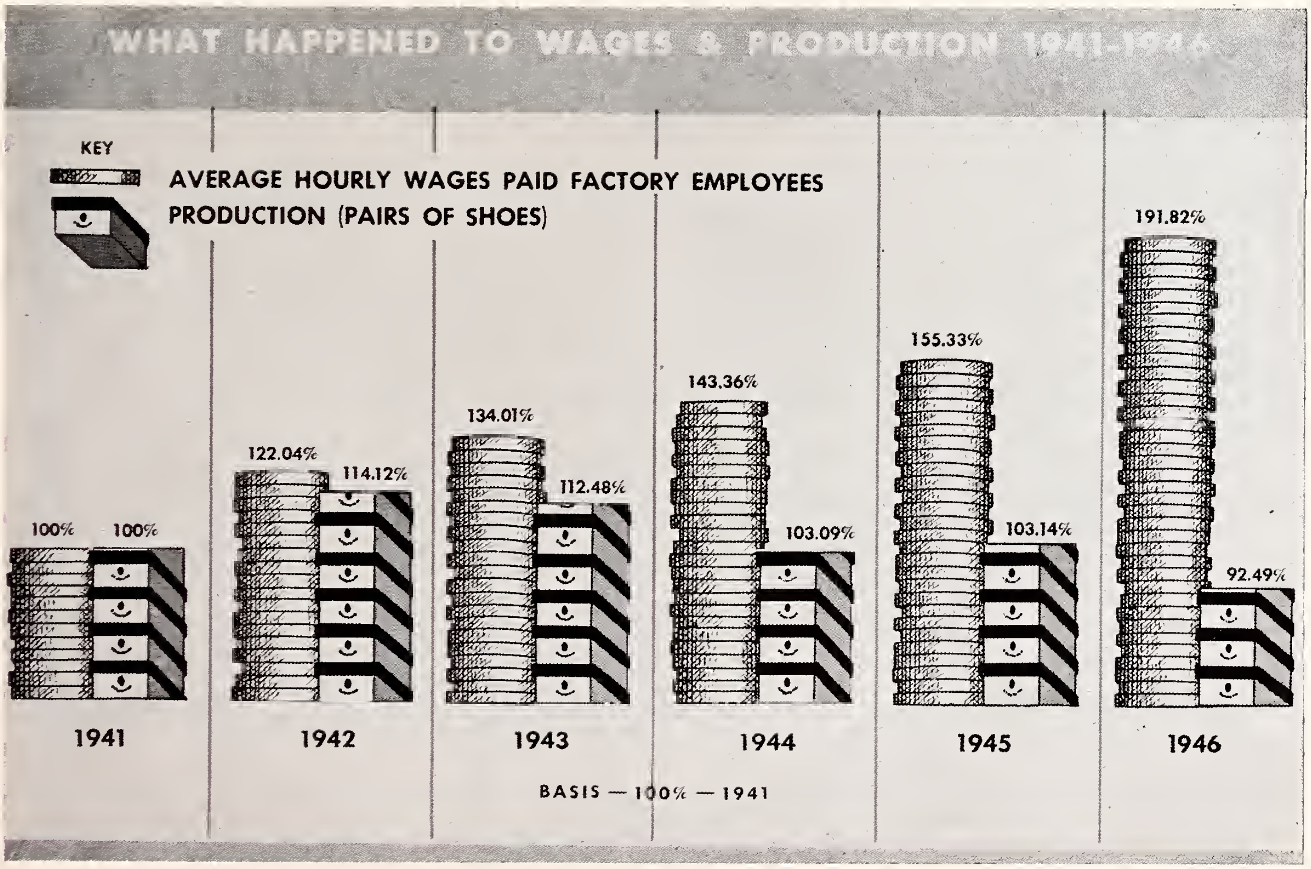
Courtesy, Calumet and Hecla Consolidated Copper Company

Fig. 116



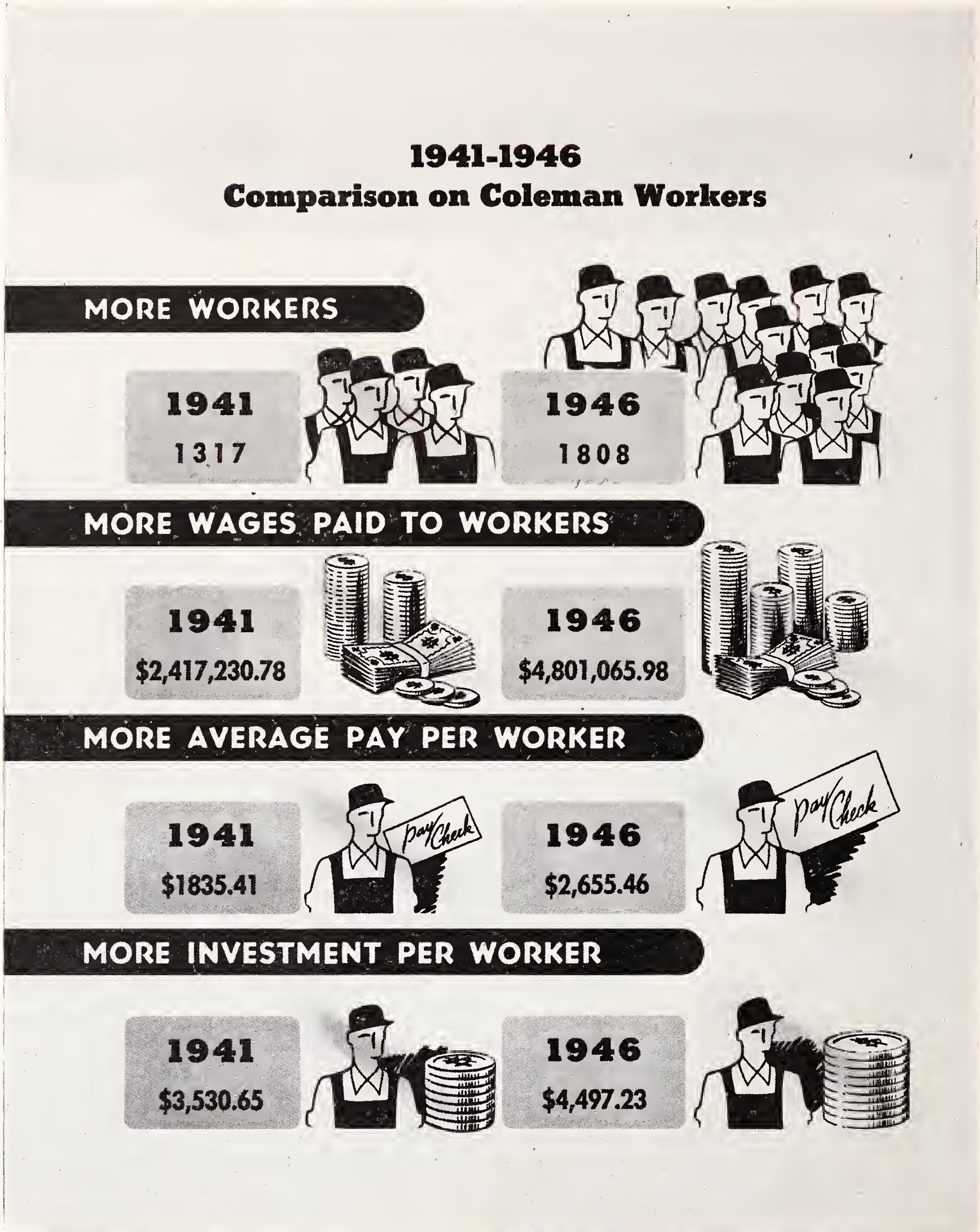
Courtesy, Caterpillar Tractor Co.

Fig. 117



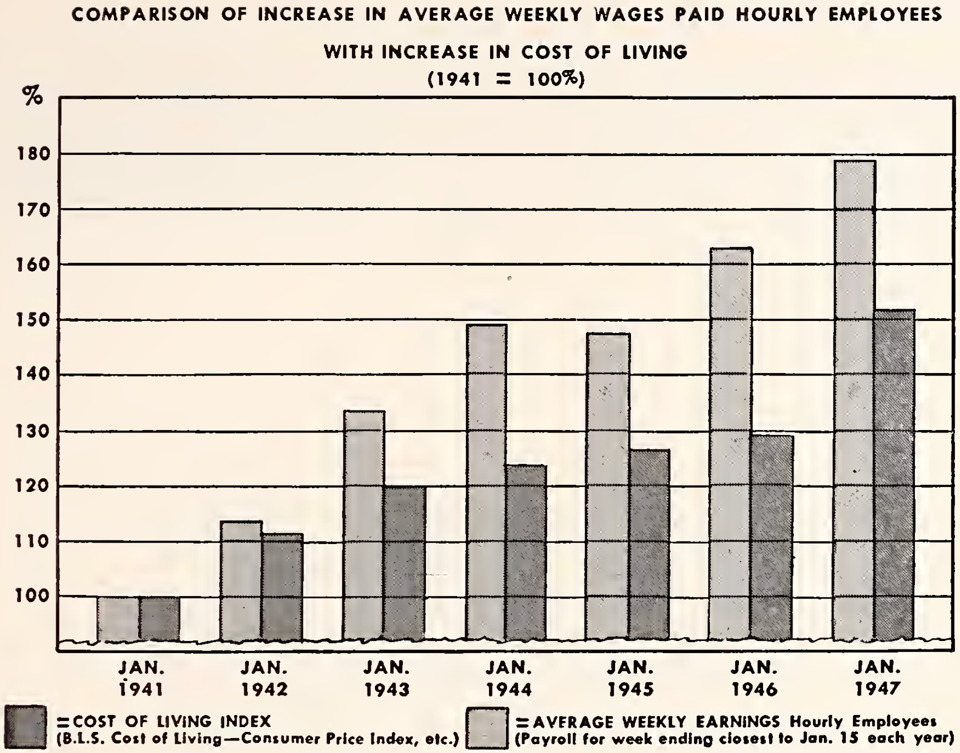
Courtesy, W. L. Douglas Shoe Co.

Fig. 118



Courtesy, The Coleman Company, Inc.

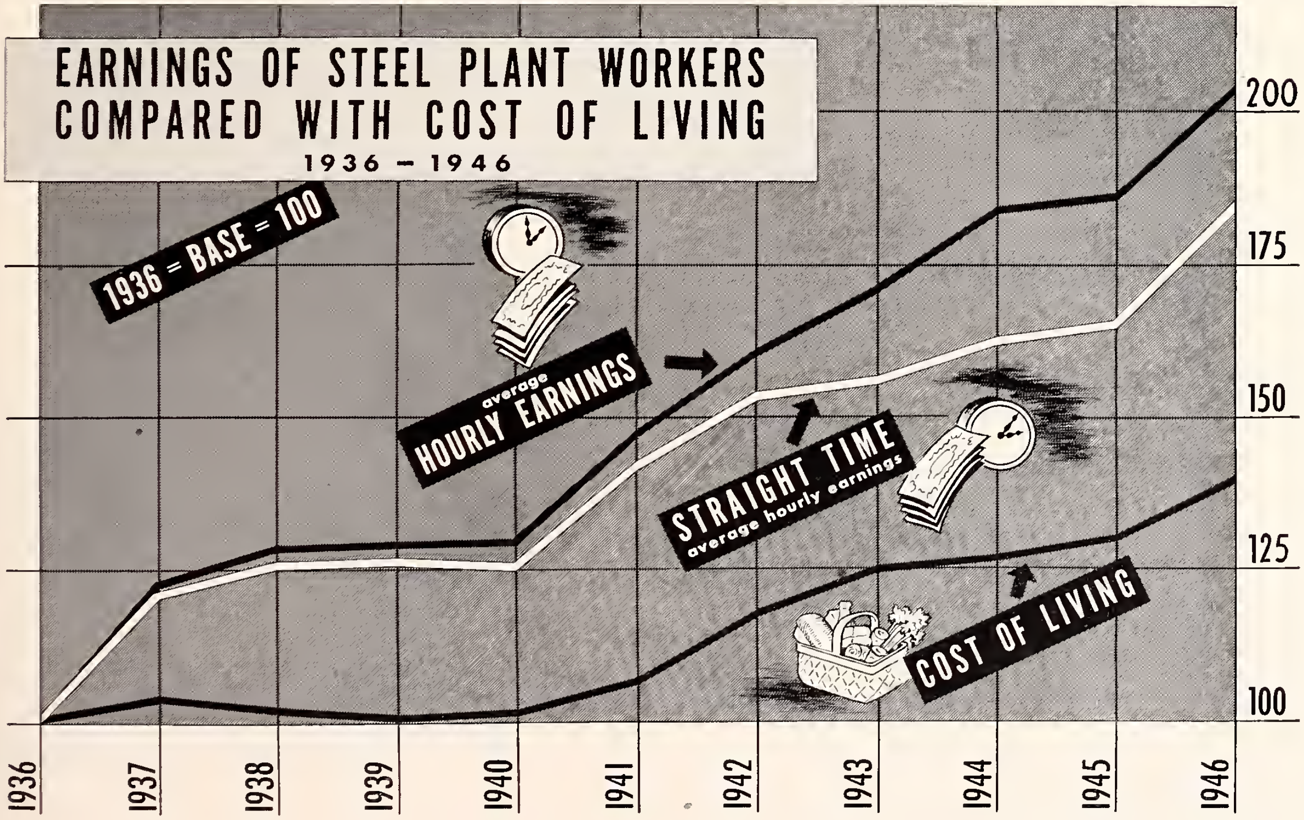
Fig. 119



COMPARISON OF INCREASE IN AVERAGE WEEKLY WAGES PAID HOURLY EMPLOYEES WITH INCREASE IN COST OF LIVING (1941 = 100%)

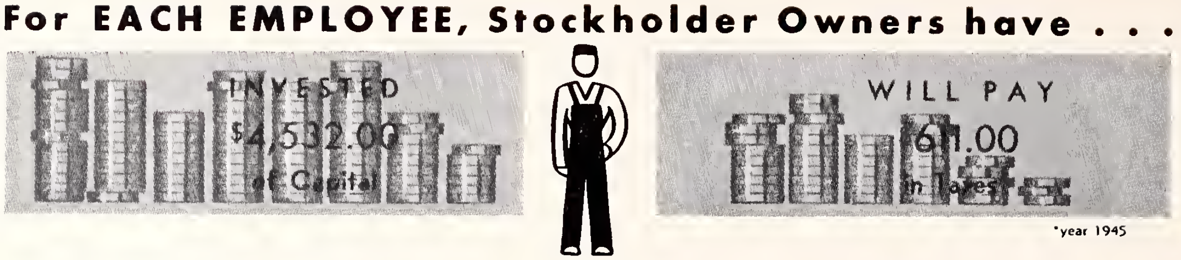
Courtesy, Sharp & Dohme

Fig. 120



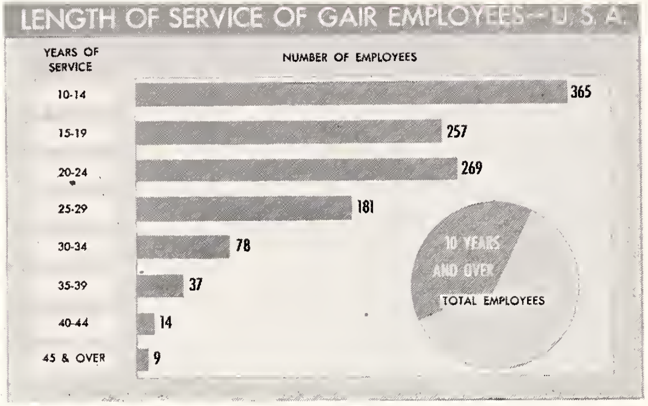
Courtesy, Inland Steel Company

Fig. 121


For EACH EMPLOYEE, Stockholder Owners have . . .
INVESTED
$4,532.00
of Capital
WILL PAY
611.00
in Taxes*
*year 1945

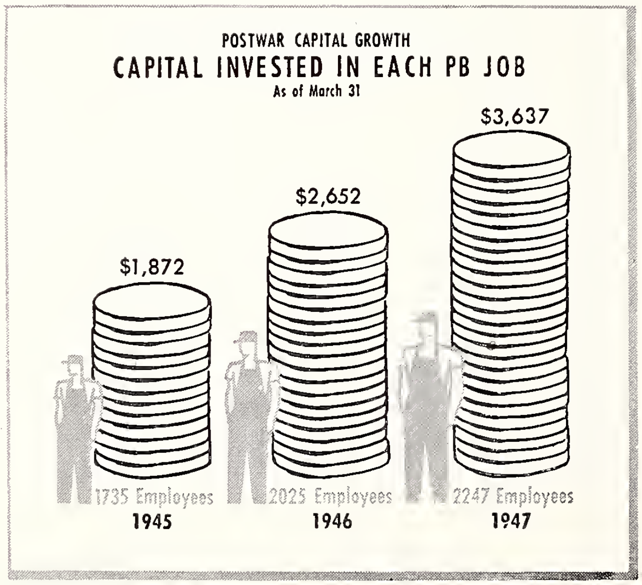
Courtesy, General Finance Corporation

Fig. 122



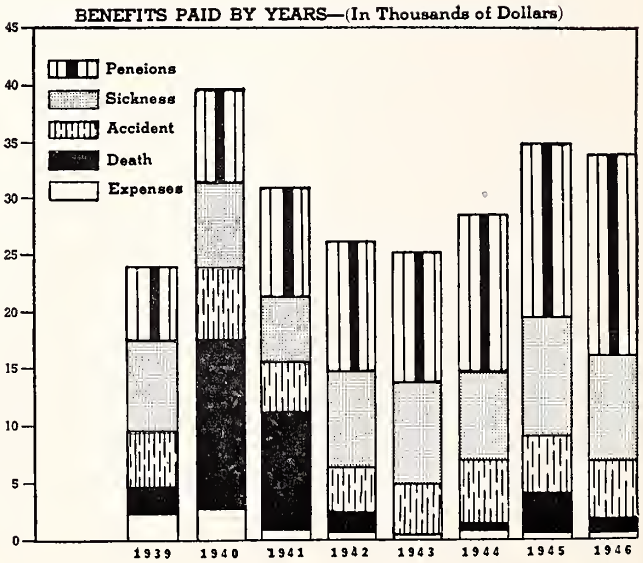
Courtesy, Robert Gair Company, Inc.

Fig. 123



Courtesy, Pitney-Bowes, Inc.

Fig. 124



Courtesy, Pennsylvania Telephone Corporation

Fig. 125

CHAPTER 11

REPORTING ON TAXES

Taxes are a subject on which stockholders want information (see pages 215, 219, 220, 223, 227) and one that management has not neglected to report on. In addition to treating the subject in the commentary and using ample charts and some statistical material, many companies have called attention to taxes by showing in their income statements the company's net income before taxes. For criticism of this practice, see page 182.

CHECKLIST FOR COMMENTARY ON TAXES

Total amount of taxes.
Comments on what the tax charts included in the report show.
Reasons for increase in accruals shown in the financial statement.
Unusual payments or recoveries during the year.
Reserve for taxes.
Reserve for contingencies arising out of tax questions.
Additional assessments pending.
Status of tax claims and litigation.
Management's attitude toward the nation's tax problems.
How increased taxes affect price of company's products and services.

IDEAS FOR CHARTS AND GRAPHS

The tax story is told well in charts. Here are the facts that are readily illustrated:

1. The amount of taxes paid for each of a number of years.
2. Breakdown of total taxes into various categories, for each of a number of years.
3. Total taxes for each of a number of years compared with:
    (a) Sales volume.
    (b) Total expense.
    (c) Wages.
    (d) Net income.
    (e) Dividends.
4. Profits before and after taxes. (See also charts at pages 76 et seq. and 99.)
5. Taxes per share of stock.
6. Taxes per employee.
7. Taxes per store unit.
8. Taxes per dollar of:
    (a) Wages.
    (b) Operating revenue. (See also charts at pages 76 et seq.)
    (c) Bond interest.
    (d) Dividends paid preferred stockholders.
    (e) Dividends paid common stockholders.
9. Taxes per customer serviced by public utilities. This figure is obtained by dividing the total taxes for each year by the number of active meters in service. Another relationship shown by public utilities is the proportion of taxes in the residential bill.
10. Comparison of trend of price of company's product with taxes on product.

See pages 155 et seq. for examples of tax charts.

IDEAS FOR STATISTICAL DATA ON TAXES

Below are various ways in which tax tables are presented in the annual report. Usually, the table is included in the comment upon taxes.

TAXES

Year	Per Share of Capital Stock	Per Employee (Average Number)
19—	$	$

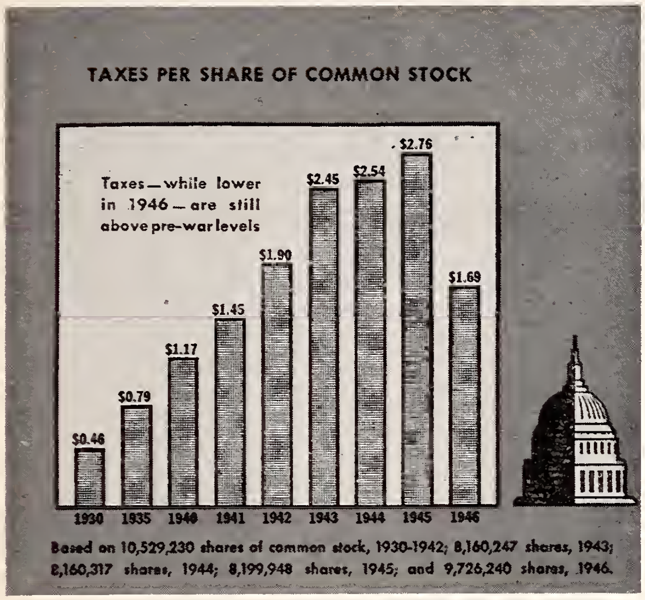
Year	Total Taxes Per Common Share	Taxes Based on Income	Other Taxes
19—	$	$	$

TAX INFORMATION

	19—		19—		
	Amount	Per Cent of Total	Amount	Per Cent of Total	Increase 19— over 19—
Federal taxes on income	$		$		$
Federal old age benefit					
Federal unemployment insurance					
Federal—Other					
Property—Ad valorem taxes					
State business tax					
State unemployment insurance					
State—Other					
Municipal occupational taxes					
Municipal—Other					
Total Taxes	$		$		$

DETAILED TAX COMPARISONS

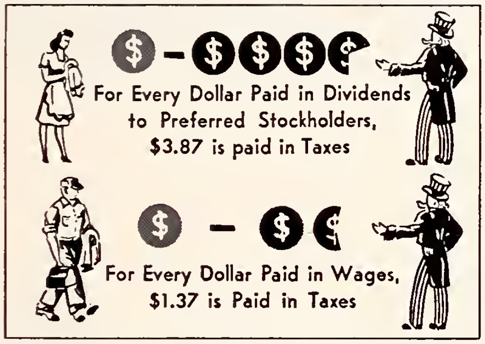
	19—	19—	9—
Local Taxes			
Real estate	$	$	$
Special franchise			
Gross receipts			
Public utilities excise			
Conduit companies excise			
Sales, compensating use and personal property			
Miscellaneous			
Total local taxes			
State Taxes			
Gross earnings			
Excess dividends			
Franchise			
Unemployment insurance			
Public utilities gross income			
Miscellaneous			
Total state taxes			
Federal Taxes			
Income			
Capital stock			
Electrical energy			
Insurance contributions (old age benefits)			
Unemployment			
Miscellaneous			
Total federal taxes			
Total taxes	$	$	$
Charged to:			
Operating taxes	$	$	$
Materials and supplies			
Non-operating taxes			
Total taxes	$	$	$
Special charge re surplus items			
Total of taxes and special charge for tax adjustments re surplus items	$	$	$



Courtesy, Philadelphia Electric Company

Fig. 126

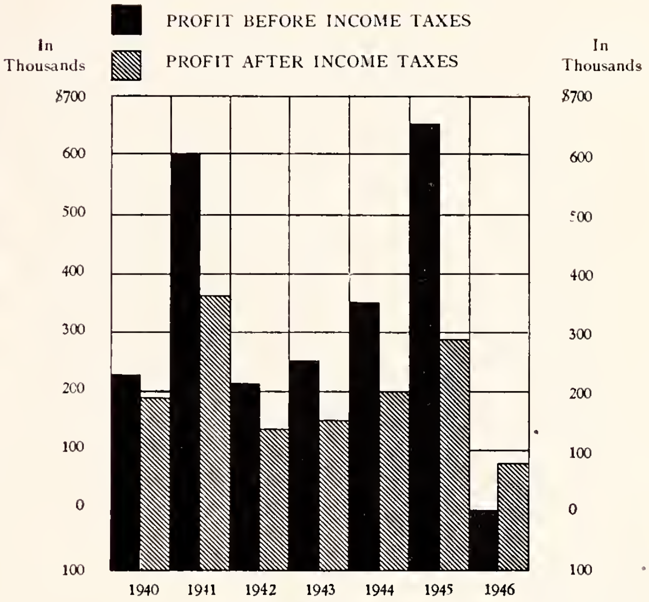
Government Gets More Than Stockholders or Employees


For Every Dollar Paid in Dividends to Preferred Stockholders, $3.87 is paid in Taxes
For Every Dollar Paid in Wages, $1.37 is Paid in Taxes

Black Coins — Taxes; Blue Coins — Dividends and Wages.

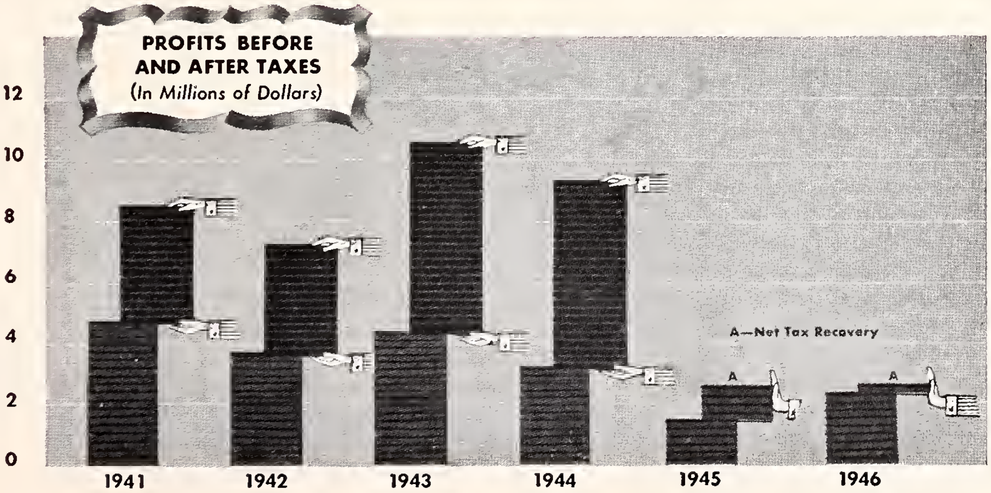
Courtesy, Wisconsin Power and Light Company

Fig. 127



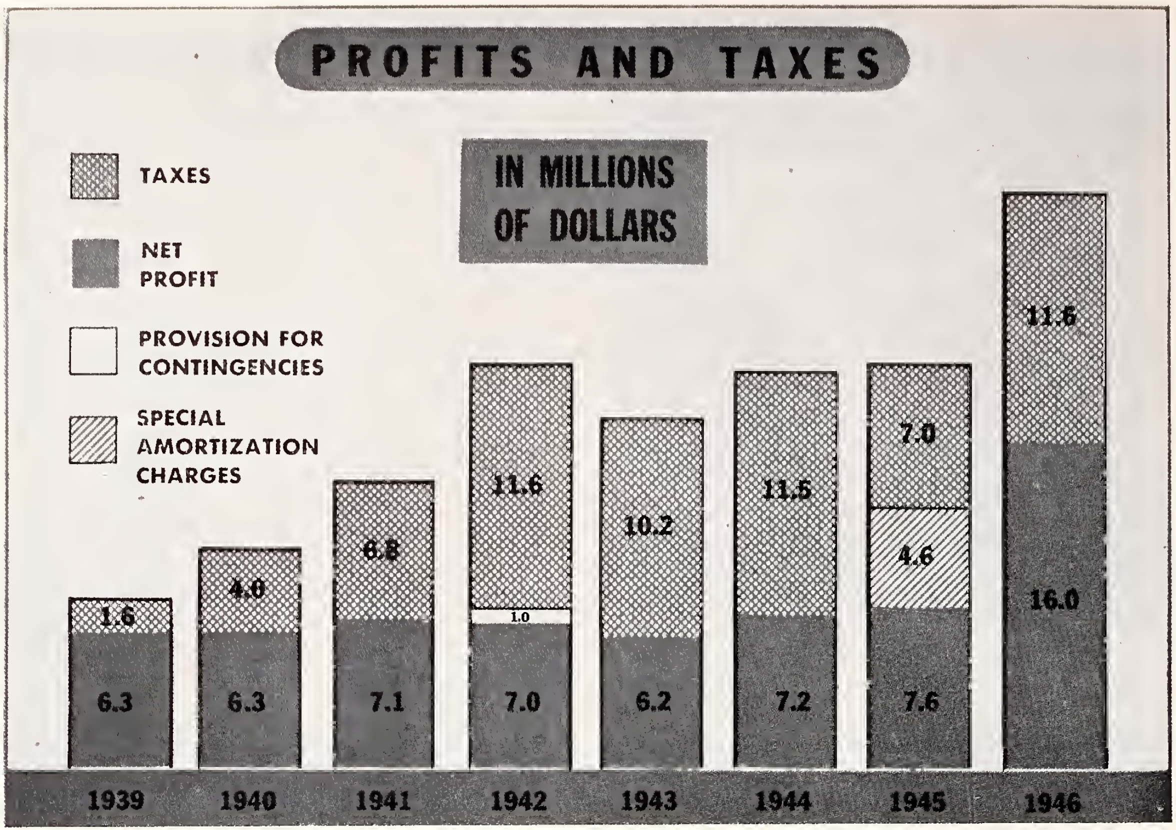
Courtesy, Michigan Steel Tube Products Company

Fig. 128



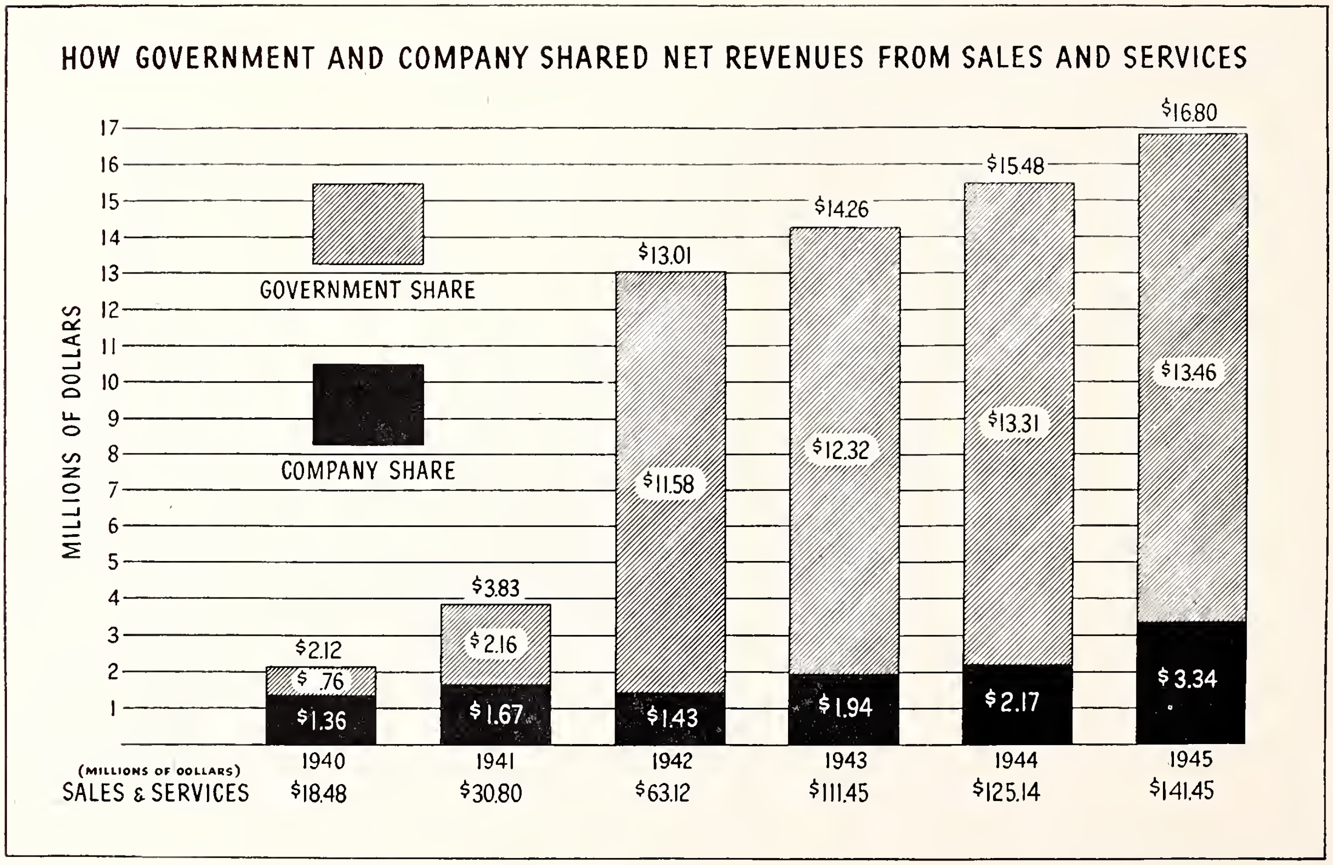
Courtesy, Nash-Kelvinator Corporation

Fig. 129



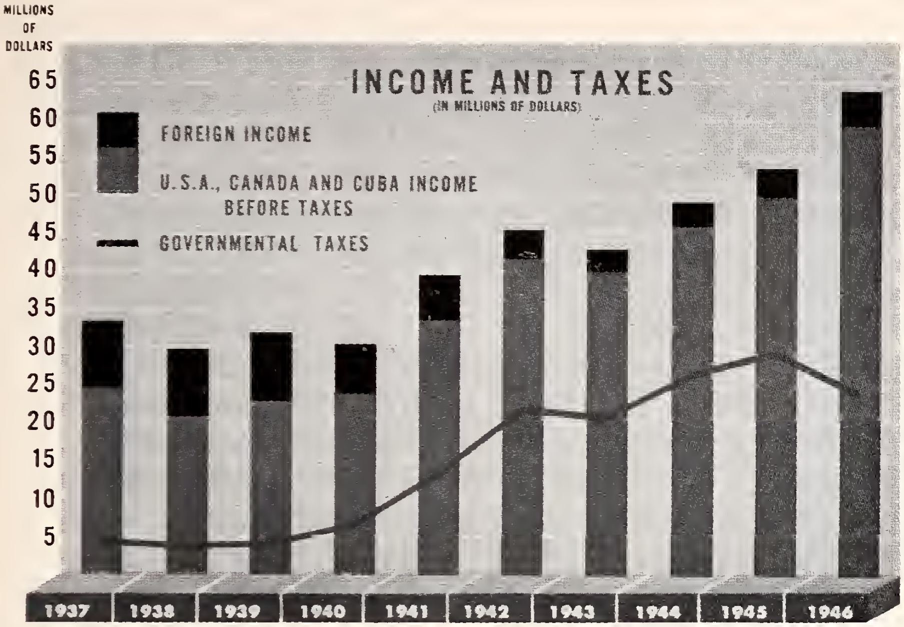
Courtesy, Celanese Corporation of America

Fig. 130



Courtesy, Blaw-Knox Company

Fig. 131

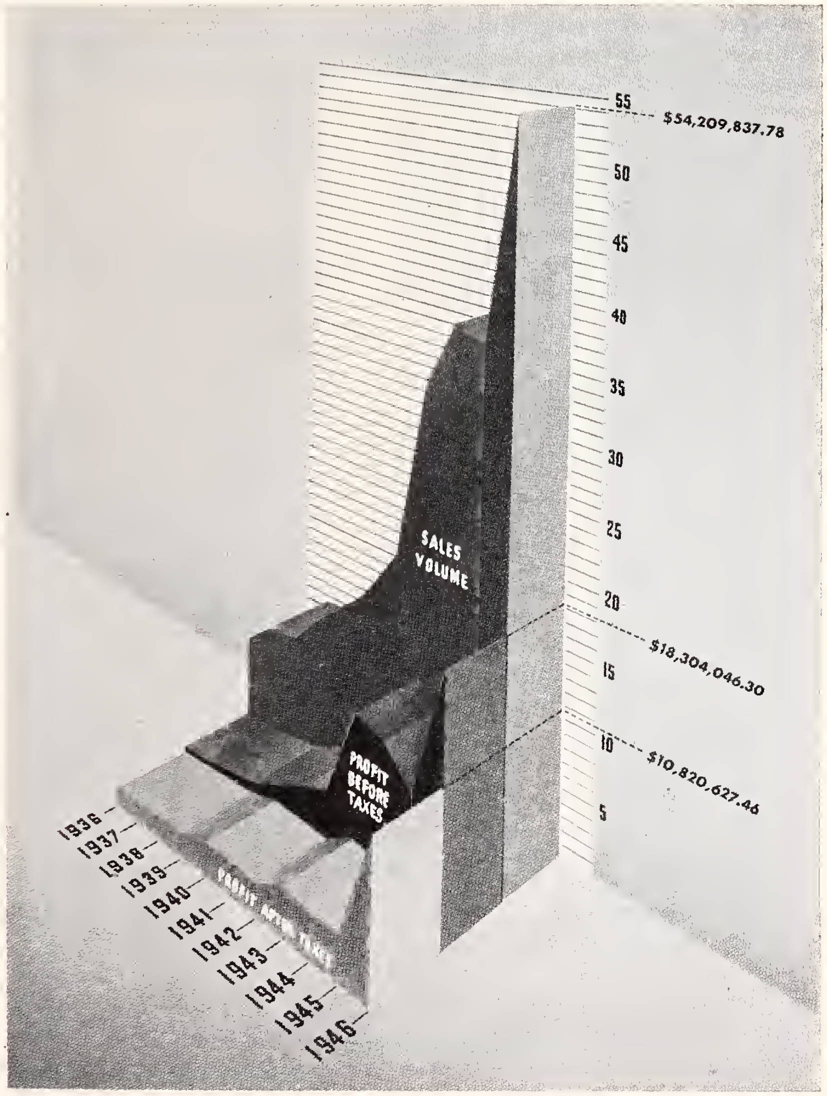


Courtesy, F. W. Woolworth Company

Fig. 132

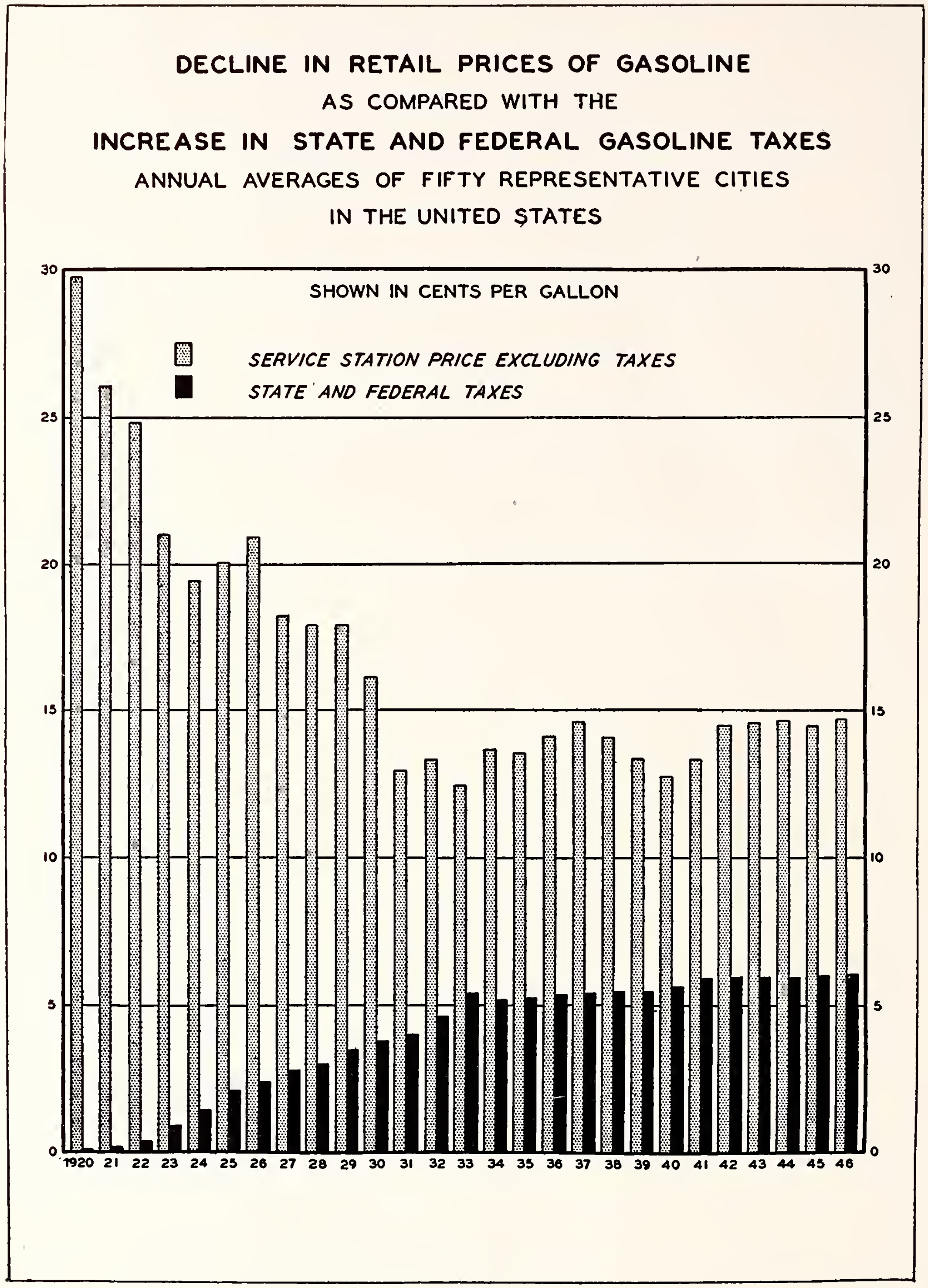
CHART SHOWING CONSOLIDATED SALES VOLUME, PROFIT BEFORE TAXES, AND PROFIT AFTER TAXES.

1936-1946



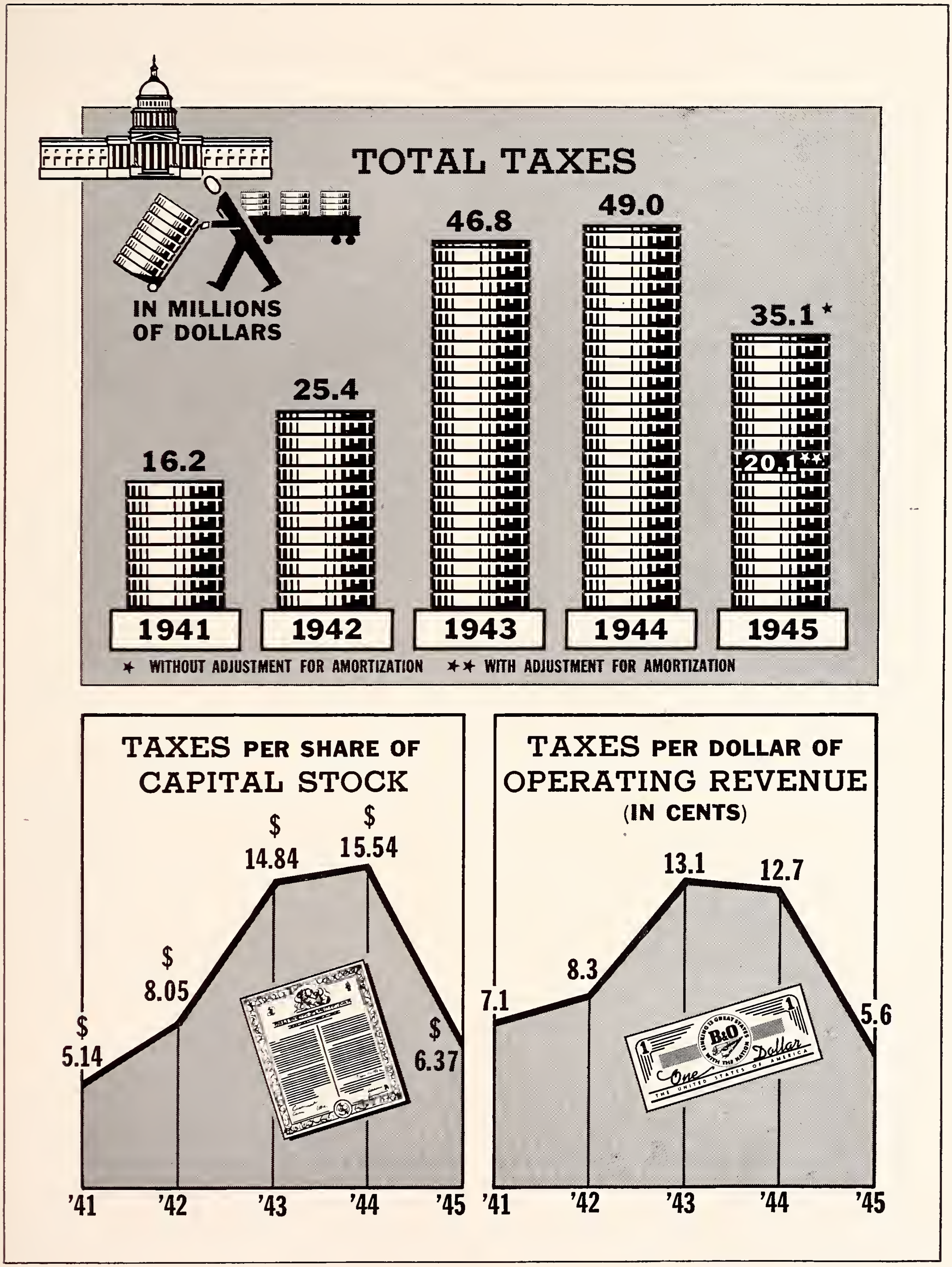
Courtesy, Abbott Laboratories

Fig. 133


DECLINE IN RETAIL PRICES OF GASOLINE
AS COMPARED WITH THE
INCREASE IN STATE AND FEDERAL GASOLINE TAXES
ANNUAL AVERAGES OF FIFTY REPRESENTATIVE CITIES
IN THE UNITED STATES

Courtesy, The Texas Company

Fig. 134



Courtesy, Baltimore & Ohio Railroad Company
Graphics by Pick-S, N. Y.

Fig. 135

CHAPTER 12

TELLING THE OWNERSHIP STORY

To tell the story of ownership, management must analyze its stockholder records. How this is done is discussed at page 230. From the analysis, management gets a better idea of the type of report it ought to make available to stockholders (see page 16).

Information about the owners should be included in the report for the following reasons:

1. Stockholders and analysts have indicated an interest in knowing who owns the company. This is shown in the surveys in Chapter 17.

2. Stockholder ownership has broadened over the years and is continuing to expand. See footnote at page 229. It is well to let it be known that stockholders represent a substantial part of the public, that large numbers are sharing in the benefits of corporate enterprise. According to Opinion Research Corporation, members of stock-owning families constitute about a fifth or fourth of the total population. In giving the proportion of stock held by life insurance companies and banks, the point can be made that these institutions represent thousands of depositors and policyholders.

3. Telling the ownership story offers an opportunity to explain the significance of the stockholder, especially in reports to employees and the public. The examples from employee reports at page 269 contain ideas that can be used in any annual report.

CHECKLIST FOR COMMENTARY ON OWNERSHIP

Importance of the stockholder to the business.
How stockholder's investment has helped the local community.
Why stockholders invest in the company.
Risks taken by stockholders.
Comments on what the charts included in the report show.
Growth in the number of stockholders.
Geographical distribution.
Occupational distribution.
Distribution among men, women and institutions.
Average holdings.
Employee stock-ownership.

IDEAS FOR CHARTS AND GRAPHS

The number of stockholders and the distribution of stockholders by size of holdings, class of holders and the like lends itself to simple graphic presentation. Here are specific ideas for illustrating who owns the company.

1. Number of stockholders in each of a succession of years.
2. Map showing distribution of shareholders by states.
3. Distribution by amount of holdings.
4. Distribution according to women, men and institutional holders.
5. Average number of stockholders and employees in each year over a number of years.
6. How much capital stockholders have invested for each employee.
7. How much each stockholder pays in taxes through company tax bill.

See pages 162 et seq. for examples of ownership charts.

IDEAS FOR STATISTICAL DATA ON STOCKHOLDERS

Below are tabular arrangements for presenting statistical data concerning stockholders.

SHAREHOLDERS

Year	Number	19 or less	20–99	100–199	200–Over

GAIN IN NUMBER OF STOCKHOLDERS—
19— TO 19—

	19—	19—
Stockholders		
Shares of Stock		
Average Shares per Stockholder . . .		
Number of Stores		
Average Number of Stockholders per Store		

Stockholders of record at December 31, 19— were:

	Stock-holders	Per Cent	Shares Held	Per Cent
Women				
Men				
Fiduciaries				
Joint accounts				
Corporations and partnerships				
Institutions*				
Nominees				
Brokers				
Insurance companies .				
Investment trusts				

* Includes churches, colleges, hospitals, societies, etc.

Geographical Location

	Common		Preferred	
State	Number of Shareholders	Number of Shares	Number of Shareholders	Number of Shares

Geographical Distribution

State	Total No. of Holders	% of Total Holders	Total No. of Shares	Average Number of Shares Held by Stockholder

QUANTITATIVE GROUPINGS OF STOCKHOLDERS

	Number of stockholders	% of total stockholders	Total shares held	% of total shares
Own 1 to 9 shares				
Own 10 to 24 shares				
Own 25 to 99 shares				
Own 100 to 199 shares				
Own 200 to 299 shares				
Own 300 to 399 shares				
Own 400 to 499 shares				
Own 500 to 999 shares				
Own 1000 to 1999 shares				
Own 2000 to 2999 shares				
Own 3000 to 4999 shares				
Own 5000 or more shares				
TOTALS				

EXCERPTS FROM COMMENTS ON OWNERSHIP

Dominion Stores, Ltd. devoted two facing pages of an annual report to its stockholders. The left-hand page showed the picture of a typical housewife carrying a bag of groceries. At the top of the page and alongside the photograph was the following statement. The facing page carried photographs of persons typical of the various groups of stockholders—thirty-four in all.

Here's Why the Human Touch Prevails at Your Dominion Store

2149 men and women from all walks of life influence our friendly food service

We're proud of the great family of everyday folk who own Dominion Stores. They represent a great many walks of Canadian life where your Dominion Store is known and appreciated. Their combined investment has made possible a greater food service for over a million housewives who are being served by Dominion Stores in hundreds of Canadian communities.

The Management and Directors of Dominion Stores feel a great sense of responsibility as custodians of so many people's savings. This is a challenge to the Management to make Dominion Stores outstanding in every way, so that our valued customers will feel that here is the friendliest atmosphere, the finest quality, the greatest variety at the most reasonable prices . . . that in Dominion Stores the human touch prevails!

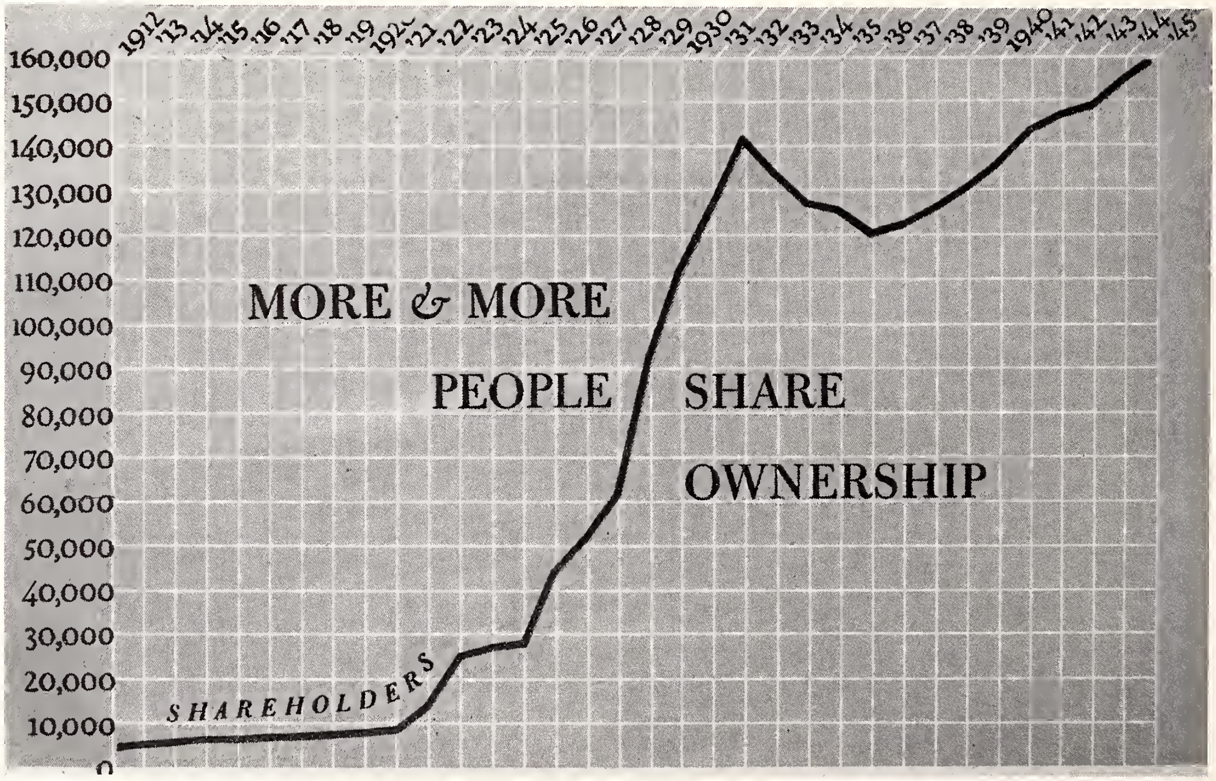
Housewives constitute the largest group of shareholders, being double the next nearest classification and over three times the second.

Stockholders

American Telephone and Telegraph Company continues to be more widely owned than any other corporation, with 695,660 stockholders of record at the end of 1946. This is 11,763 more than a year ago. More than one-half of the stockholders are women. The average number of shares held was 29.6 and no stockholder held as much as ½ of 1 per cent of the total stock outstanding. Holders of 1 to 5 shares numbered 207,400 while 655,900 stockholders, or 94 per cent of the total, held less than 100 shares each. Holders of 100 shares or more, including insurance companies and other institutions representing additional thousands of investors, totaled 39,800 and held 47 per cent of the stock. Approximately 50,000 Bell System employees own stock in the Company.

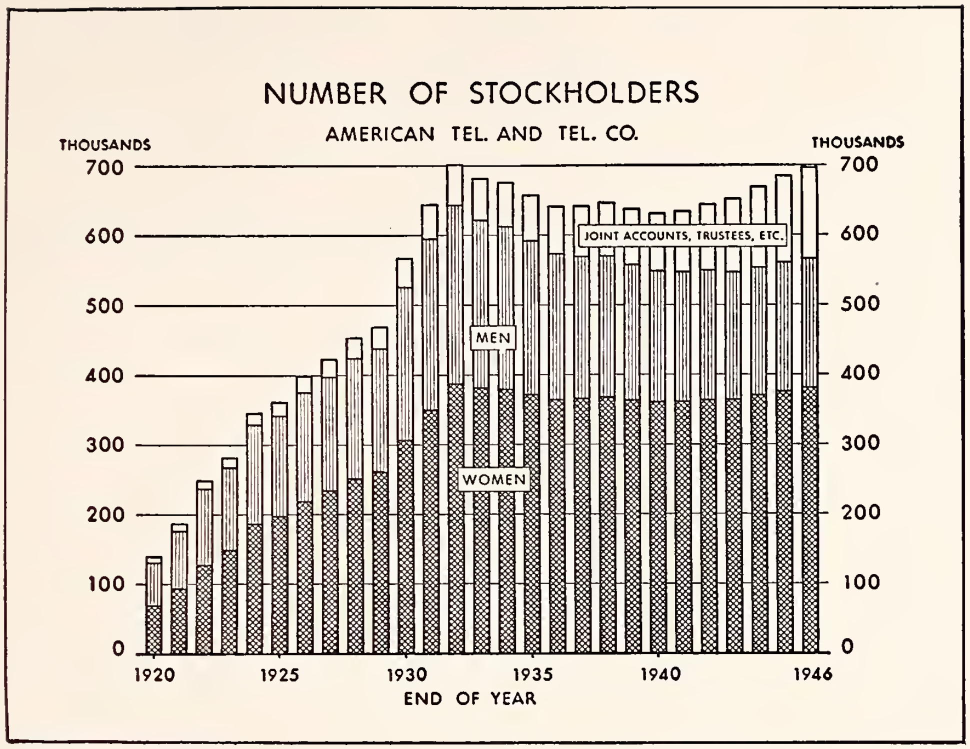
Of the total shares, 43.1 per cent was held by women, 25.7 per cent by men, 8.8 per cent in joint accounts, and 21 per cent by trustees, insurance companies, corporations and private firms; 1.4 per cent was in the names of brokers. There were also at the end of 1946 about 26,900 holders of common stock of the Company's principal telephone subsidiaries.

The Bell System belongs to people in all walks of life, in the cities, towns and rural areas of America. Five states have more than 50,000 stockholders each, 26 states more than 5,000 and no state has fewer than 500 stockholders. The capital of the Bell System comes from the savings of the many rather than the wealth of the few. [*American Telephone & Telegraph Co.*]



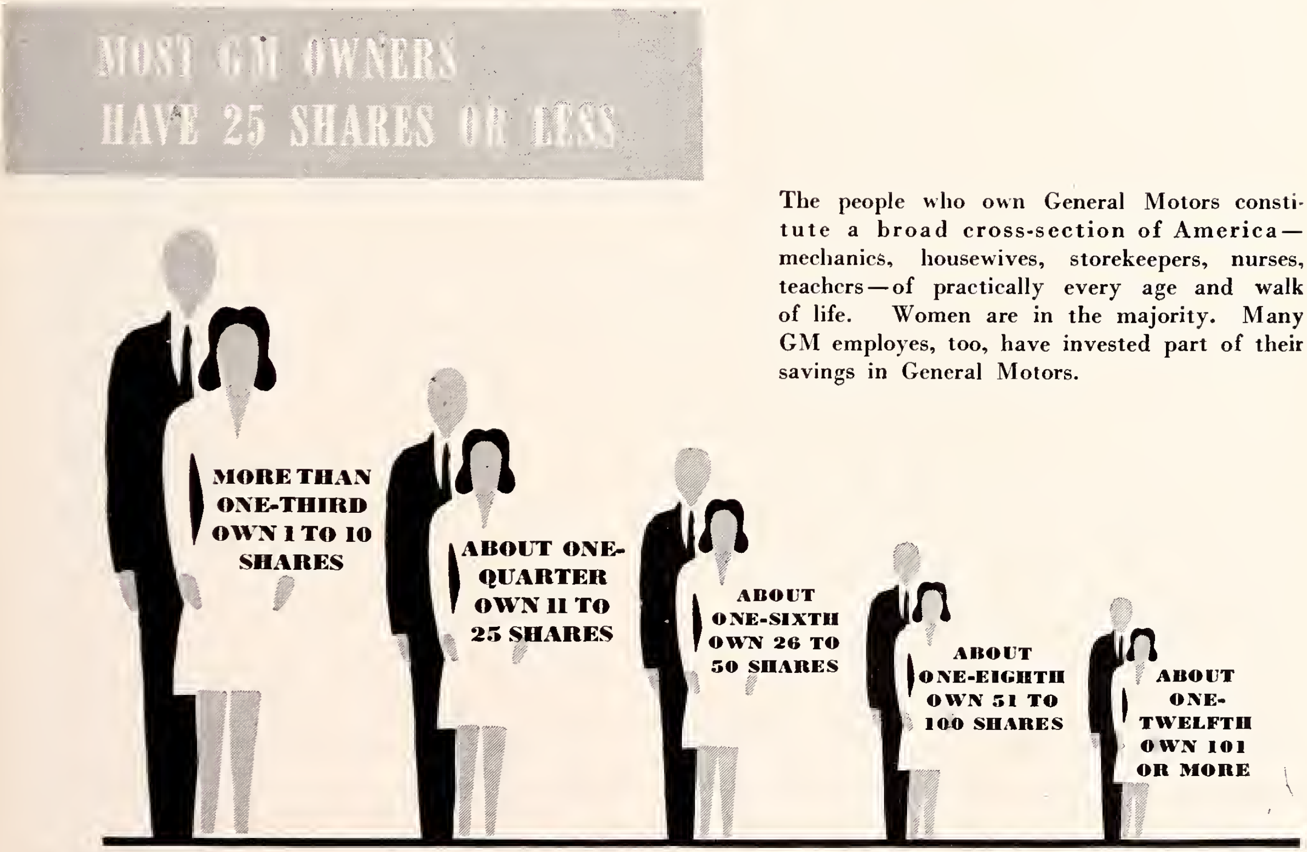
Courtesy, Standard Oil Company (New Jersey)

Fig. 136



Courtesy, American Telephone and Telegraph Company

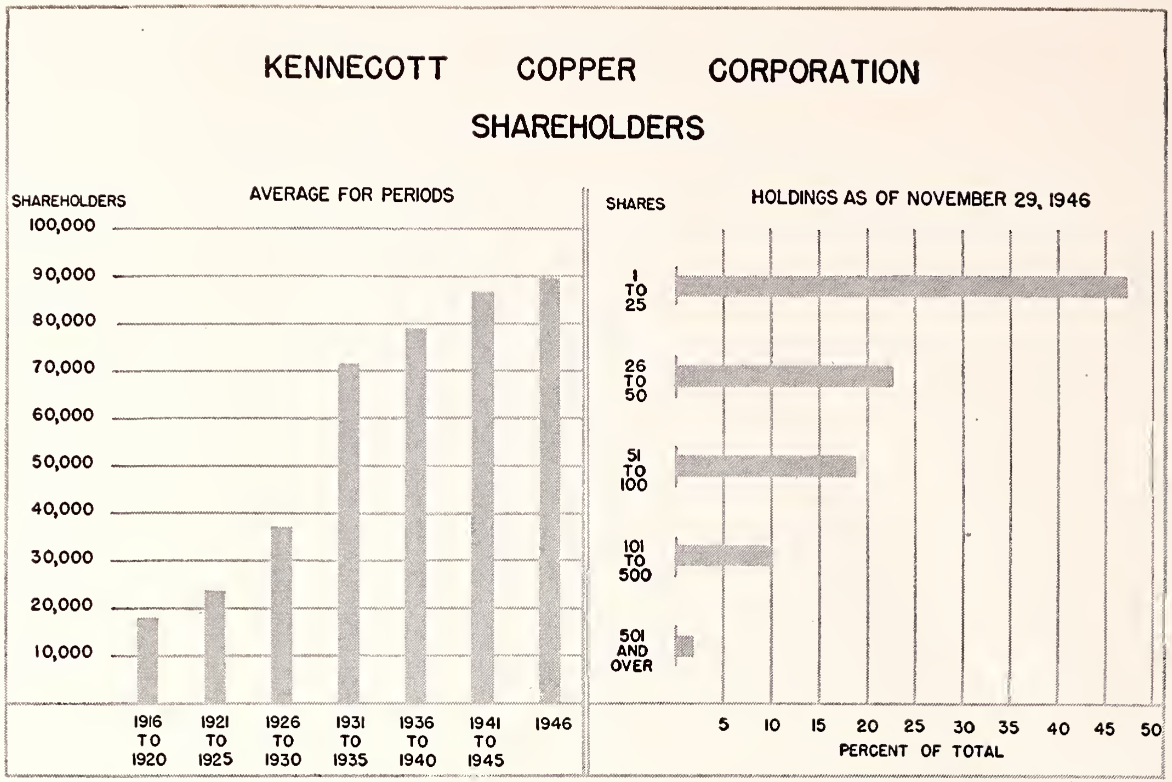
Fig. 137


MOST GM OWNERS
HAVE 25 SHARES OR LESS
MORE THAN ONE-THIRD OWN 1 TO 10 SHARES
ABOUT ONE-QUARTER OWN 11 TO 25 SHARES
ABOUT ONE-SIXTH OWN 26 TO 50 SHARES
ABOUT ONE-EIGHTH OWN 51 TO 100 SHARES
ABOUT ONE-TWELFTH OWN 101 OR MORE

The people who own General Motors constitute a broad cross-section of America—mechanics, housewives, storekeepers, nurses, teachers—of practically every age and walk of life. Women are in the majority. Many GM employes, too, have invested part of their savings in General Motors.

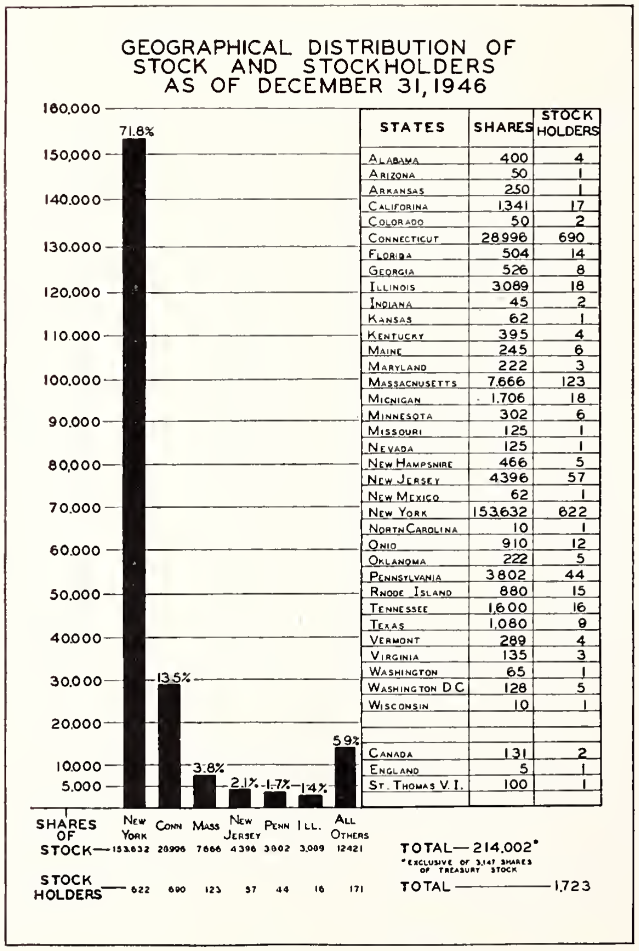
Courtesy, General Motors Corporation

Fig. 138



Courtesy, Kennecott Copper Corporation

Fig. 139



STATES	SHARES	STOCK HOLDERS
Alabama	400	4
Arizona	50	1
Arkansas	250	1
Califorina	1341	17
Colorado	50	2
Connecticut	28996	690
Florida	504	14
Georgia	526	8
Illinois	3089	18
Indiana	45	2
Kansas	62	1
Kentucky	395	4
Maine	245	6
Maryland	222	3
Massachusetts	7.666	123
Michigan	1.706	18
Minnesota	302	6
Missouri	125	1
Nevada	125	1
New Hampshire	466	5
New Jersey	4396	57
New Mexico	62	1
New York	153632	622
North Carolina	10	1
Ohio	910	12
Oklahoma	222	5
Pennsylvania	3802	44
Rhode Island	880	15
Tennessee	1,600	16
Texas	1,080	9
Vermont	289	4
Virginia	135	3
Washington	65	1
Washington D C	128	5
Wisconsin	10	1
Canada	131	2
England	5	1
St. Thomas V. I.	100	1

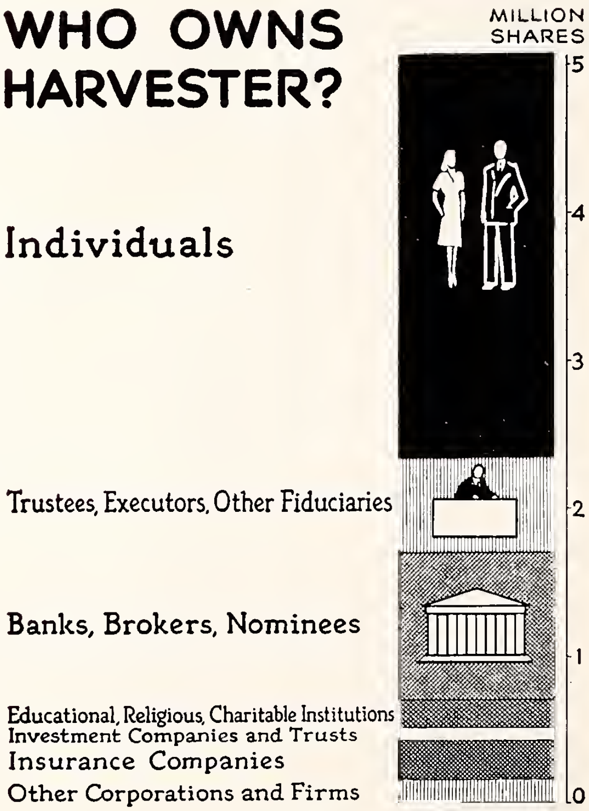
TOTAL—214,002*

*Exclusive of 3,147 shares of treasury stock

TOTAL —— 1,723

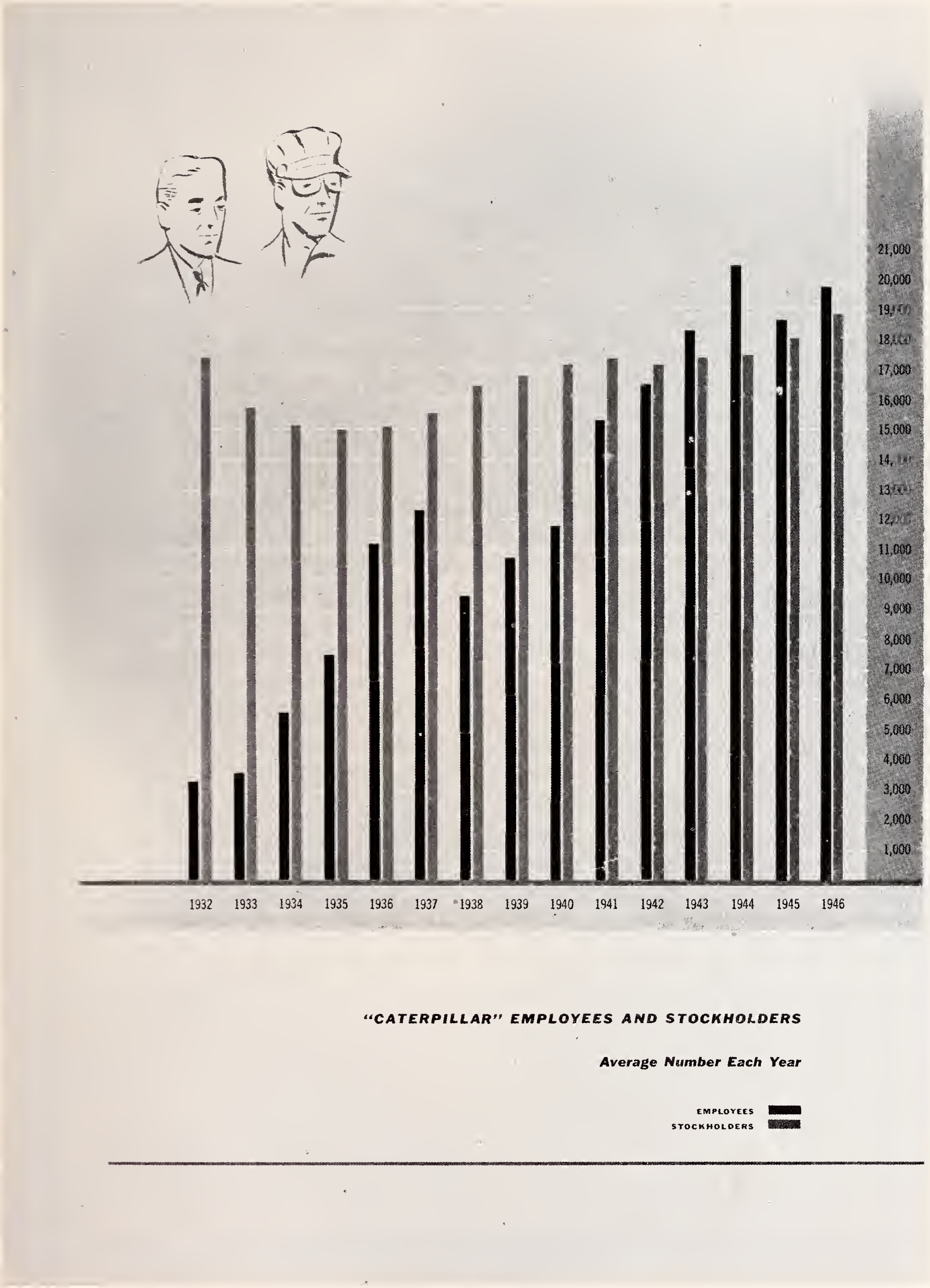
Courtesy, The Gray Manufacturing Company

Fig. 140



Courtesy, International Harvester Company

Fig. 141



Courtesy, Caterpillar Tractor Co.

Fig. 142

REPORTING ON PRODUCTS, RESEARCH, ADVERTISING AND SELLING

In reporting on the company's products and how they are sold, the objectives usually are: (1) To give the reader an accurate idea of what the corporation does, (2) to gain the reader's interest in the company's products, (3) to make customers of stockholders, (4) to boost the company's products, (5) to gain goodwill of dealers and distributors.

The subject divides itself into four parts: (1) A description of the products or services and processes, (2) research, (3) advertising, (4) selling. Separate checklists are given below for each of these topics. In some reports, the section on products is actually developed according to this four-part arrangement. In others, the company's products are divided into groups and the story is told separately for each group.

Caution. A word of caution must be given against making the products-portion of the annual report the dominating feature. The annual report is not essentially a promotion piece, nor is it a catalog. It is an account of the year's performance. Some companies have therefore put all the information concerning the company's products in a separate booklet (see page 18) to be sent with the annual report. On the other hand, many companies have succeeded in giving considerable information about their products without making the product-section dominant. The Walworth Company actually stitched into one of its annual reports the current copy of its sixteen-page magazine *Walworth Today*. This organ is published to promote the sales of the company's products. It was so obviously a magazine sent along with the report that it did not appear to dominate the report.

CHECKLIST FOR COMMENTARY ON PRODUCTS

List of products and their trade names.
What competition the company meets. Competition as an element of free enterprise might be mentioned in giving the facts about accomplishments under the American business system.
Uses of products.
Products produced by each division.
Distinctive features of product and "family" characteristics of line.
Price policy.
Quality.
Construction of products.
Product origin and evolution.
New products.
Recent trends in the product.
Tests of products and awards in competition.
Unusual performances.
Sample of products to be sent with annual report (see page 202).
See also checklist for reporting on production, page 47.

CHECKLIST FOR COMMENTARY ON RESEARCH

Management's attitude toward research, development and engineering.
Present and future policies.
Functions of the research department.
Objectives of the research.
Fields in which research has been done.
Projects that were worked on during the year.
Accomplishments by the research department; discoveries and developments.
Coöperation with college and university laboratories.
Amount expended during the year on research.
Cumulative expenditures for research.
Personnel engaged in research and development.
Patent department's growth.
Appropriation for research.

CHECKLIST FOR COMMENTARY ON ADVERTISING

Management's opinion of the value of advertising.
Advertising media used during the year.
Chief aim of advertising during the year.
Comments on specific campaigns.
General advertising policy of the company.
Reproduction of recent or outstanding advertisements.
What was appropriated for advertising.
Campaign plans in the making.

CHECKLIST FOR COMMENTARY ON SELLING AND DISTRIBUTION

Location of sales territories. See use of maps for this purpose, page 203.
Who buys the company's products; types of customers.
Distribution of product among different classes of customers as compared with a similar distribution for the industry in general.
Salesmen's training.
Number of salesmen.
Number of orders per salesman.
Sales volume per man.
Salesmen's earnings.
Distribution of company's products in world markets.
Foreign business.
Special services offered to customers.
Keeping pace with the changing market.
Distribution policies.
Consumer relations.
Sales plans.
Price range.
Warehouse system.
Service policies.

EXCERPTS FROM COMMENTS ON PRODUCTS AND HOW THEY ARE SOLD

The ideas presented below are but a few of many that have been used in annual reports. Those selected show originality, adaptability and good reporting.

For a straightforward presentation of the company's production and products, Celanese Corporation used the following copy:

> ### Production and Products
>
> Fundamentally a chemical company, the major product of Celanese Corporation is cellulose acetate which, by a combination of processes, can be made either into a textile yarn or a plastic. The operations of Celanese are three-fold: textiles, plastics, chemicals.
>
> In producing *textiles,* the Company:
>
> 1. Manufactures and sells Celanese yarn and staple fibre principally to textile mills where it is woven or knitted into various fabrics for apparel, home furnishings and industrial uses.
> 2. Manufactures and sells fabrics made of Celanese yarn to manufacturers, wholesalers and retailers. These fabrics include satins, jerseys, crepes, ninons, moires, sharkskins, suitings, damasks and many others. Manufacturers make them up into finished merchandise for the consumer. Typical examples include clothing, draperies, underwear. Celanese fabrics are also sold as yard goods by department stores.
>
> In producing *plastics,* the Company manufactures and sells a range of basic cellulosic thermoplastics to industrial users for making finished products.
>
> These plastics fall into three principal groupings:
>
> 1. Molding materials for use in molded parts and articles, such as toothbrush handles and electrical parts.
> 2. Films and foils for use in such typical applications as transparent packaging including rigid containers, index tabs and laminations to other materials.
> 3. Sheets, rods and tubes for such uses as clothes hampers, tool handles, fountain pens and many others.
>
> The Company also produces reinforced, non-shattering plastic glazing, which is marketed under the trade name, Vimlite.
>
> In manufacturing *chemicals,* the Company:
>
> 1. Produces many of the basic chemicals used in making yarns and plastics.
> 2. Produces and sells various chemicals to industry. Typical of Celanese production of organic chemicals are acetic acid, formaldehyde, and methanol—consumed in large quantities by many industries. [*Celanese Corporation of America*]

The same company made use of the bar-chart in Fig. 147, page 173 to show its cumulative expenditures for research.

LaPlante-Choate enlivened a story on the development of its product with the attractive illustration in Fig. 144, page 170. The hills in the background were blue, the color used in the report.

Sanger Bros. included in one of its reports a two-page spread (see page 169 for one of them) describing the services offered to patrons.

Goodyear devoted a substantial part of a report to the company's products and how they are sold. One page contained photographs taken in different parts of the world. They were identified under the heading: "Goodyear products serve in every clime." Another page told about advertising. On this page, there were line cuts on the outer and lower margins to illustrate the advertising media used. The statement (see page 172) contained a clear opinion of the value of advertising. Succeeding pages told about dealer education, salesmen's education and independent dealers. In each instance, the copy was surrounded on the outer and bottom margins by photographs relating to the subject discussed.

Michigan Consolidated Gas Company showed who uses its products with the full-page illustration reproduced in Fig. 145 at page 171.

Standard Oil Company of California devoted two pages of one report to the company's advertising program. One of them is reproduced in Fig. 149, page 174.

See also Fig. 148, page 173 and Fig. 150, page 175 for graphic stories of principal users of company products.

An example of a comprehensive statement on research is reproduced from a Cudahy Packing Company annual report.

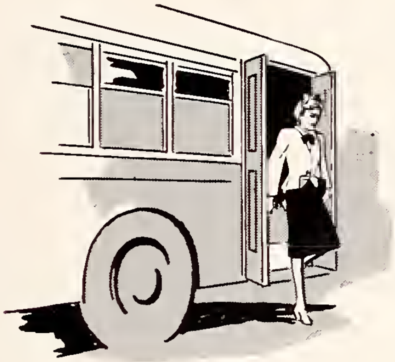
Research

The scientific department of our organization, the laboratory, has two important functions. One of these is the control of the quality of our products and the ingredients and supplies we purchase. Both our own and competitors' products are constantly being analyzed and examined by the laboratory to make certain that our standards are being maintained, and that our quality stays abreast or ahead of that of our competitors. The other function of the laboratory is research. This consists of the development of new products and new methods of manufacture and improvement of existing ones. During the year just closed, the director of the laboratory, as well as other members of the staff, returned from the armed services so that the work of the research staff has been pushed with more vigor than was possible throughout the war years. In the past year important research has been done in the fields of glue manufacture. New processes have been worked out both for the purpose of improving the glue and producing it more economically. * * * Considerable research has been done on fats and oils, and oil made from beef fats for frying pop corn shows promise of favorable acceptance. * * * A method for producing a plastic oleo oil for confectionery manufacture has been developed with a neutral flavor and superior keeping qualities. * * * A series of liquid oils made from lard is ready for production. Such oils can be made to remain crystal clear down to very cool room temperatures. They should be especially convenient and satisfactory for pan greasing or other purposes where a baker desires to use a liquid fat. They also have the advantage of better keeping qualities. * * * Research on improvement of the keeping quality of fats and oils through new anti-oxidants has shown progress. * * * Progress also has been made in prolonging the freshness of margarines and shortenings. * * * Our laboratory always has been a pioneer in the application of technological progress in the preparation of lard. Research during the past year has resulted in a shortening made from lard, which is a superior product for all culinary uses, and has much improved keeping qualities. * * * Considerable research has been done on new synthetic detergents for use in the preparation of cleansing materials of our sanitation and maintenance department, which services institutions, office buildings, hotels, factories, etc. * * * On account of the increased demand for pharmaceutical products it has been necessary to do research work on a broad scale to develop ways of increasing our output of standard products and to develop new ones. * * * Great interest has been aroused in recent years in amino acids resulting from the hydrolysis of proteins; and because of the important part they play in human nutrition, it is reasonable to expect they will become as familiar to the general public as vitamins are now. Our research program on amino acids is being pressed and already has developed some important and unique prospects.

In keeping with our policy of furthering scientific effort not only within our own organization but through other agencies it is our custom to make grants to colleges and universities for research in the field of nutrition. [*Cudahy Packing Company*]

BUILDING THROUGH SERVICE

Very few department stores ever achieve the important role Sanger Bros. plays in the lives of its patrons. In addition to offering the Southwest's largest collection of dependable quality merchandise, Sanger's offers its patrons numerous services which bring them added conveniences, enjoyment and entertainment throughout the year. These services are brought to patrons without cost and are but a few of the many reasons why this great store has, and deserves, the reputation of being "The Best Place to Shop for All."



FREE STREETCAR OR BUS FARE

Sanger Bros. is convenient to nearly all cross-town streetcars and busses, for nearly all stop at one of Sanger's doors. Sanger Bros. provides patrons with free bus or streetcar transportation by refunding eight-cent car tokens with fifty-cent purchases, or two eight-cent tokens with purchases of $1.50 or more. This is a long established Sanger service to patrons.

FREE PARKING GARAGE FOR PATRONS

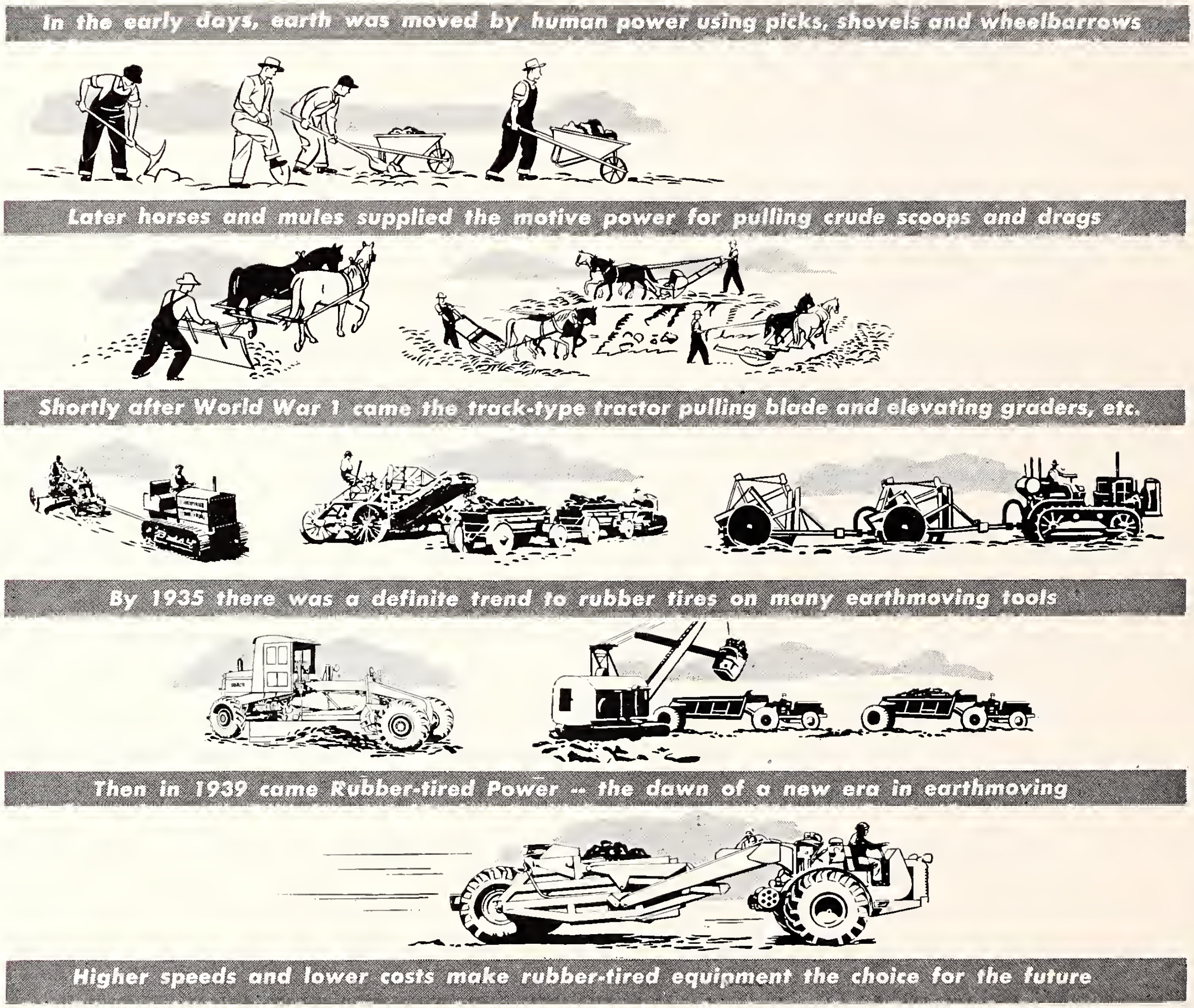
You can park in Sanger's spacious garage free for four hours with a purchase of $1.00 or more. Just across the street from Sanger's main store, this convenient parking system enables patrons to use their cars for shopping, especially in rainy weather.

SUPERVISED PLAY ROOM FOR KIDDIES

On Sanger's 8th floor, the kiddies have a room all their own. It's a spacious playroom, gaily painted with circus murals and equipped with safe playthings that delight young hearts. Mothers can leave kiddies for hours, and shop with the assurance that they are being well taken care of by a specially trained attendant.

Courtesy, Sanger Bros., Inc.

Fig. 143



In the early days, earth was moved by human power using picks, shovels and wheelbarrows

Later horses and mules supplied the motive power for pulling crude scoops and drags

Shortly after World War 1 came the track-type tractor pulling blade and elevating graders, etc.

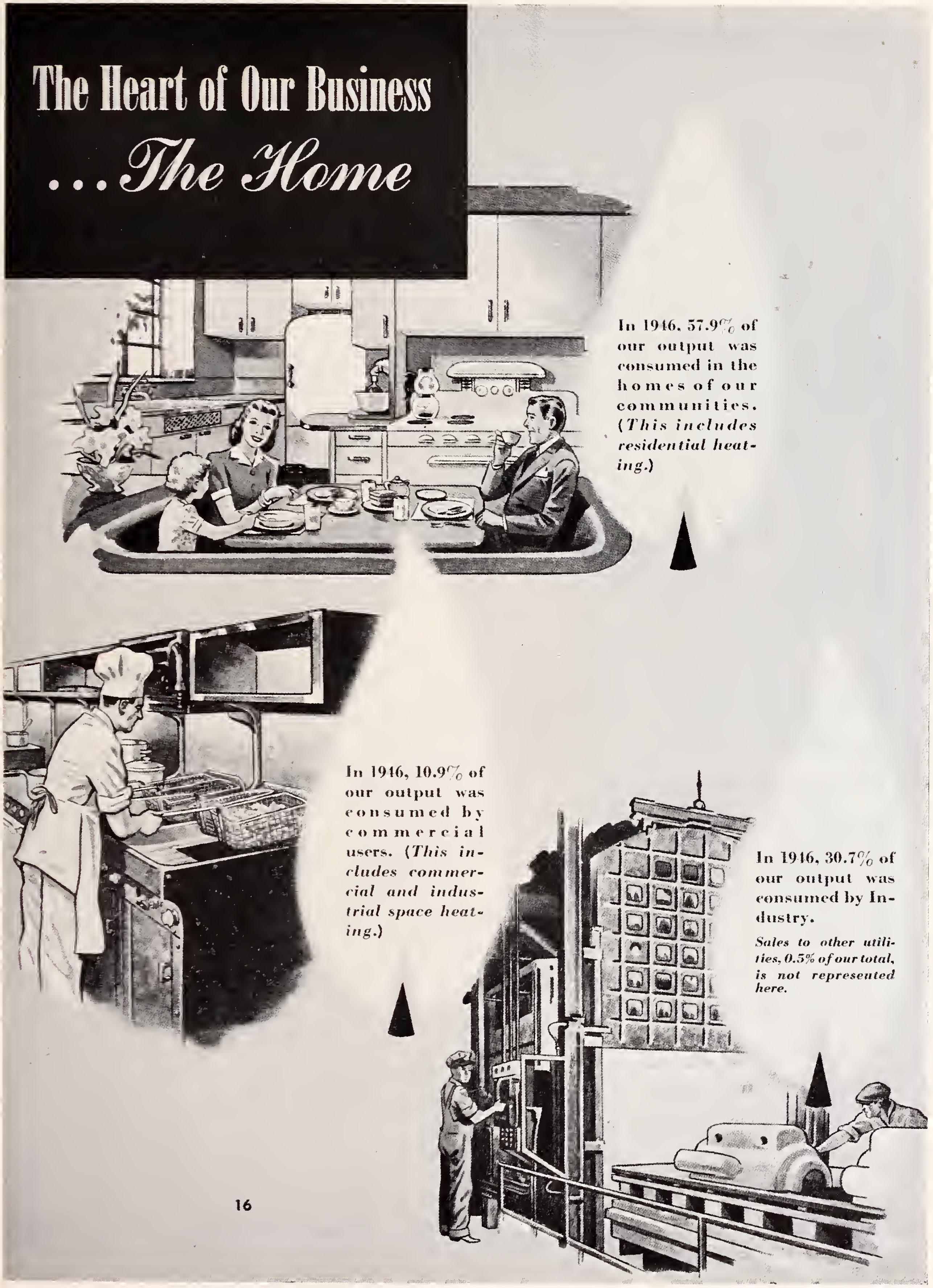
By 1935 there was a definite trend to rubber tires on many earthmoving tools

Then in 1939 came Rubber-tired Power -- the dawn of a new era in earthmoving

Higher speeds and lower costs make rubber-tired equipment the choice for the future

Courtesy, La Plante-Choate Manufacturing Co., Inc.

Fig. 144



The Heart of Our Business

...The Home

In 1946, 57.9% of our output was consumed in the homes of our communities. (*This includes residential heating.*)

In 1946, 10.9% of our output was consumed by commercial users. (*This includes commercial and industrial space heating.*)

In 1946, 30.7% of our output was consumed by Industry.

Sales to other utilities, 0.5% of our total, is not represented here.

Courtesy, Michigan Consolidated Gas Company

Fig. 145

... in Magazines

.. in Newspapers

... in Farm Publications

How your company sells its products

Advertising

Practically every family, business and industry is a prospect for Goodyear products of one kind or another. That is why your company has long been a consistent user of advertising of all forms to reach its millions of potential customers. Advertising is the most economical method of mass selling, and the most effective means of keeping both the company and its products prominent in the public's mind.

Most people realize today that advertising is an economic force that works to reduce the price of goods to the public. It does so by creating a demand large enough to permit use of mass-production methods that cut unit cost of manufacture. This saving is passed on to the consumer in the competition between manufacturers for business, as the company which can offer better values at lower prices has the biggest sales advantage.

In the case of Goodyear tires, this saving over the years has amounted to many dollars in the price of a tire, yet the advertising cost per individual tire is only a fraction of a cent.

During the current year when the demand for rubber products greatly exceeded supply, Goodyear advertising has been devoted primarily to maintaining the public's preference for Goodyear quality Numerous surveys indicate that Goodyear will enter 1947 with the highest consumer preference for its products in history, assuring continued sales leadership.

... by Radio

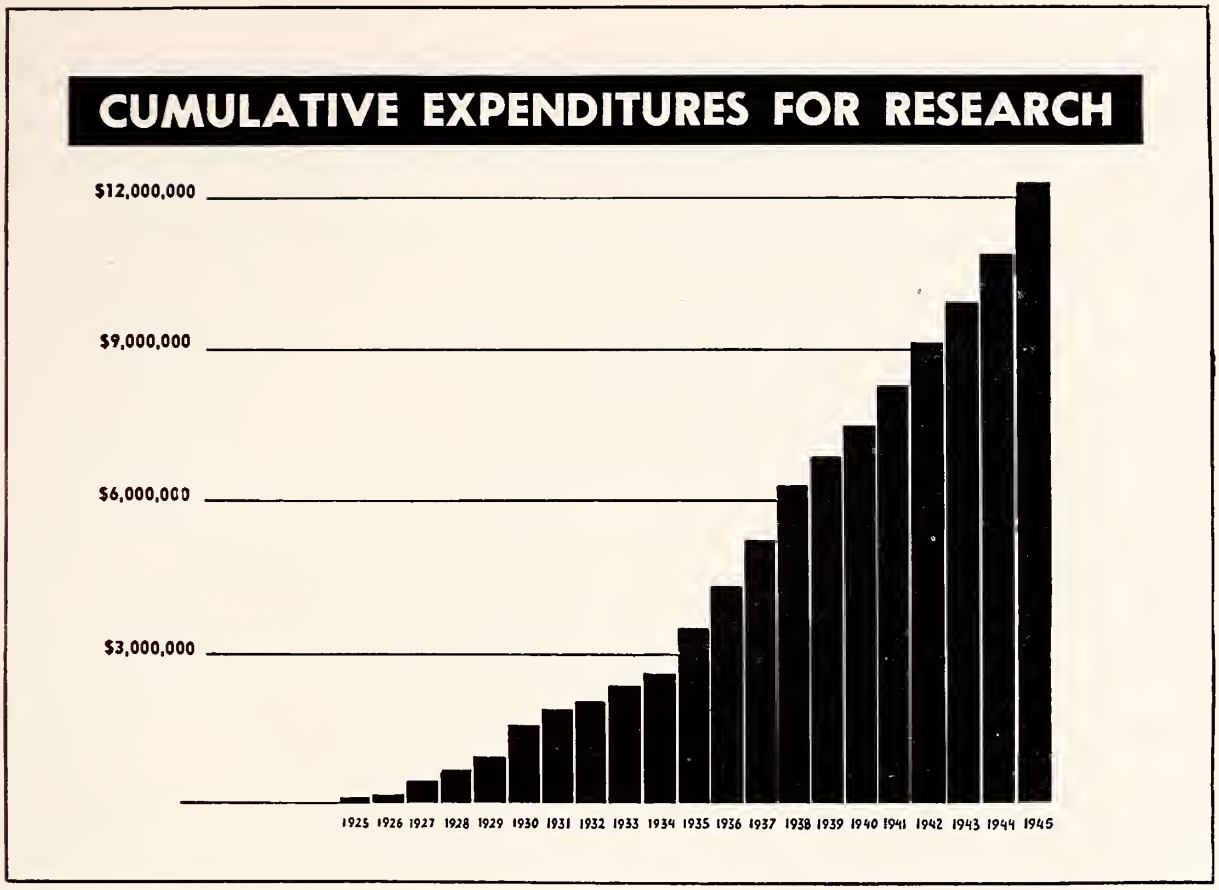
... by Television

... by Direct Mail

... by Displays

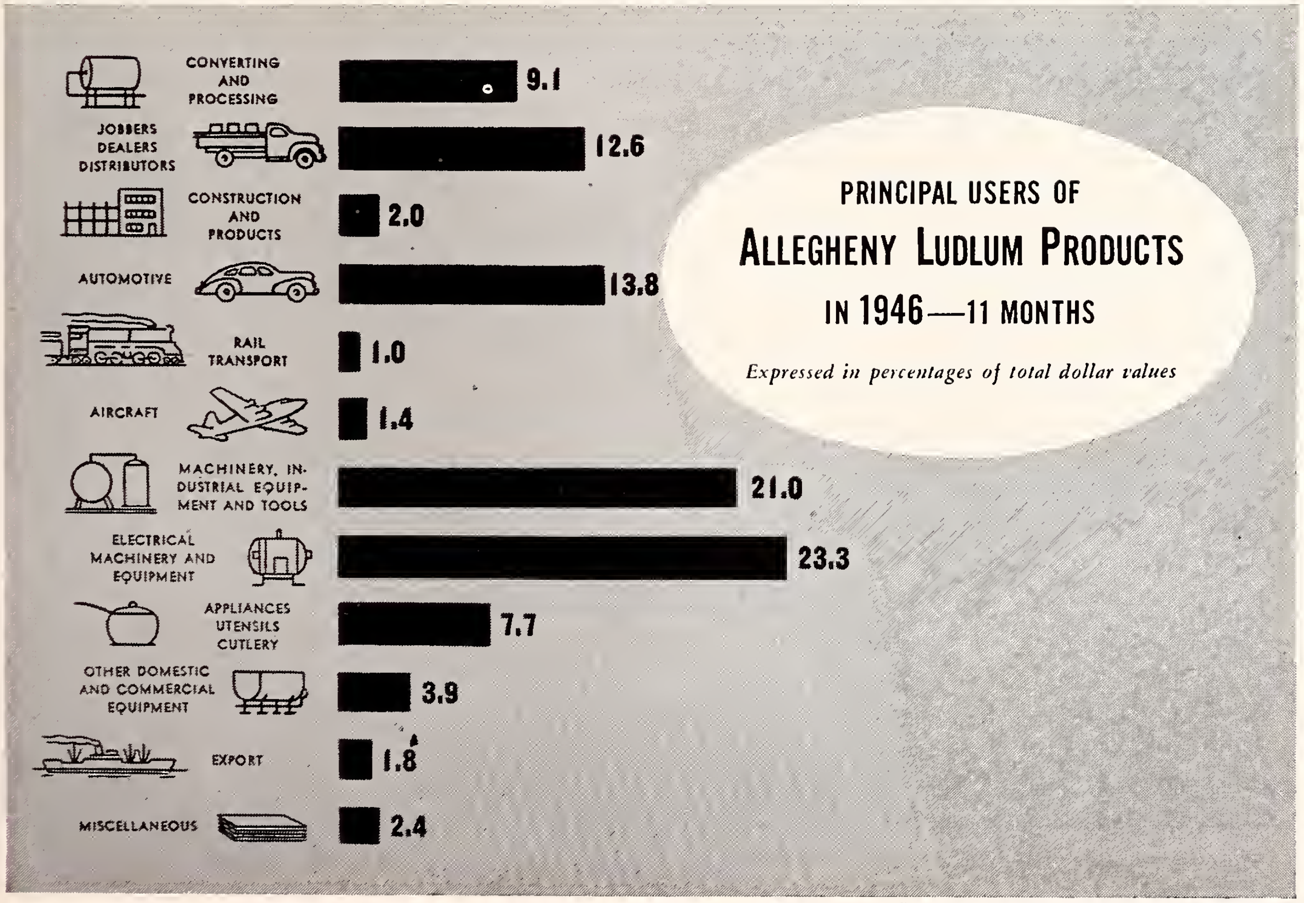
Courtesy, The Goodyear Tire & Rubber Company

Fig. 146



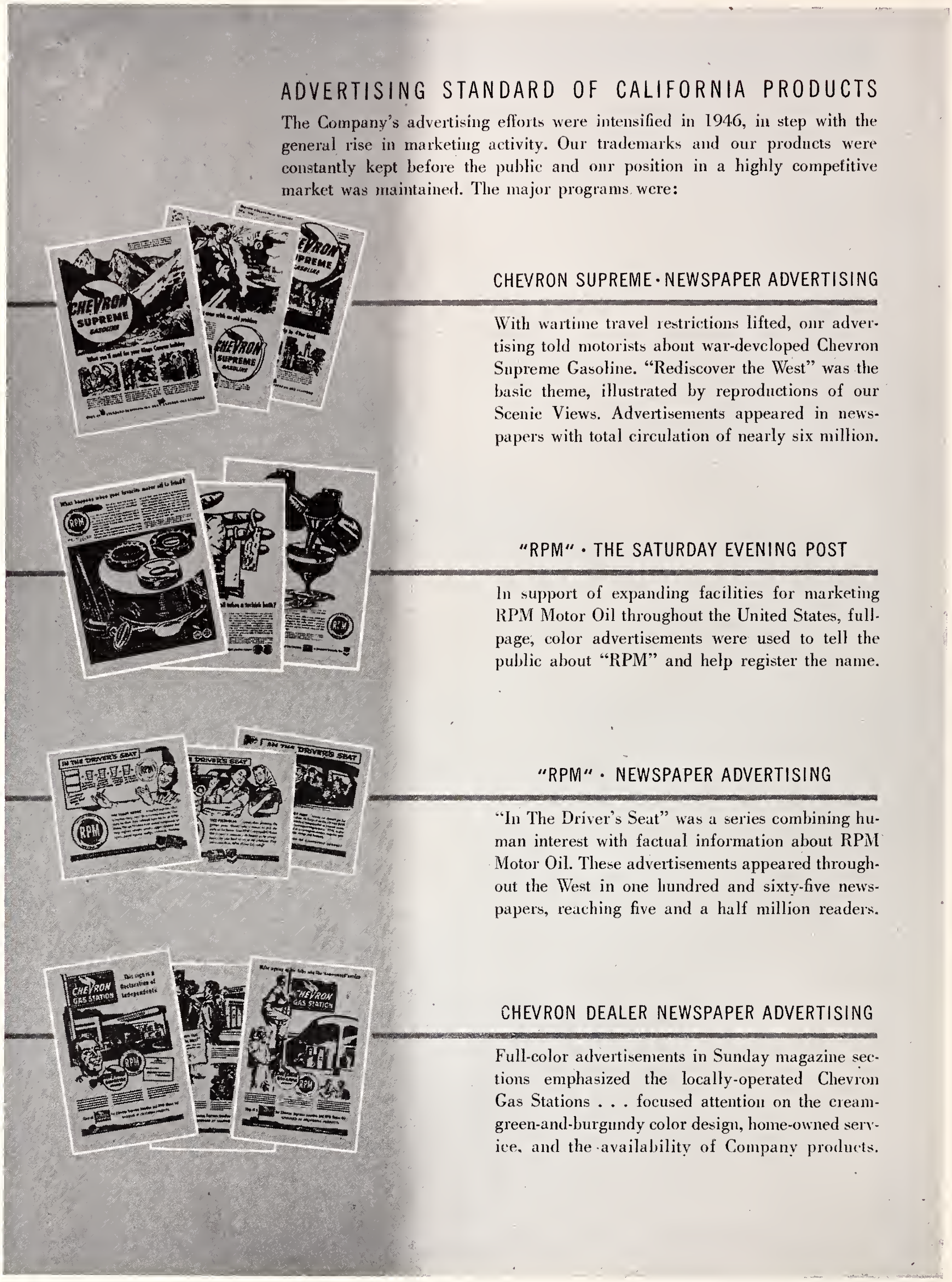
Courtesy, Celanese Corporation of America

Fig. 147



Courtesy, Allegheny Ludlum Steel Corporation

Fig. 148


CHEVRON SUPREME GASOLINE
RPM
IN THE DRIVER'S SEAT
CHEVRON GAS STATION

ADVERTISING STANDARD OF CALIFORNIA PRODUCTS

The Company's advertising efforts were intensified in 1946, in step with the general rise in marketing activity. Our trademarks and our products were constantly kept before the public and our position in a highly competitive market was maintained. The major programs were:

CHEVRON SUPREME · NEWSPAPER ADVERTISING

With wartime travel restrictions lifted, our advertising told motorists about war-developed Chevron Supreme Gasoline. "Rediscover the West" was the basic theme, illustrated by reproductions of our Scenic Views. Advertisements appeared in newspapers with total circulation of nearly six million.

"RPM" · THE SATURDAY EVENING POST

In support of expanding facilities for marketing RPM Motor Oil throughout the United States, full-page, color advertisements were used to tell the public about "RPM" and help register the name.

"RPM" · NEWSPAPER ADVERTISING

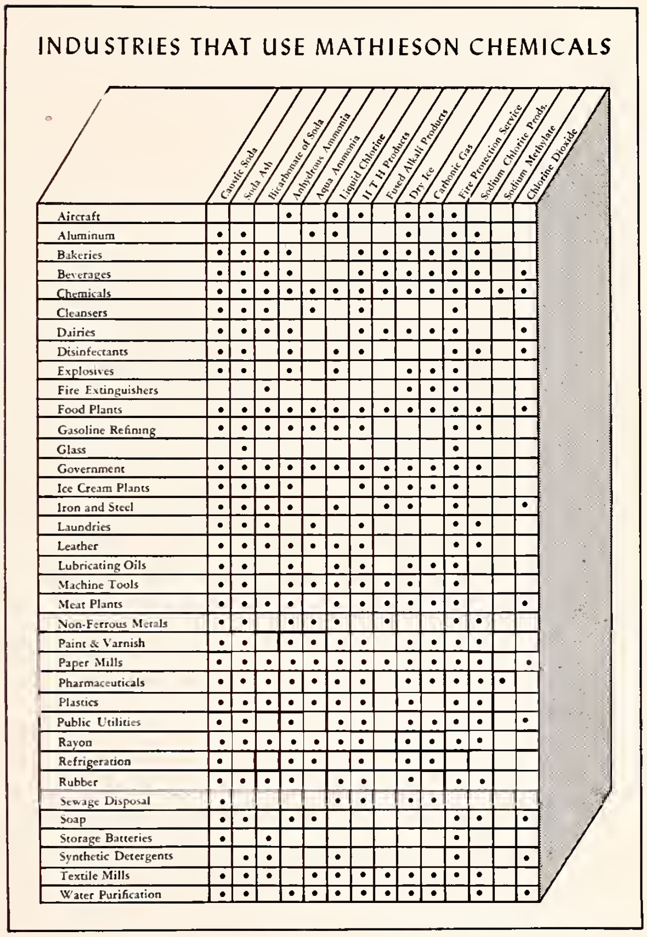
"In The Driver's Seat" was a series combining human interest with factual information about RPM Motor Oil. These advertisements appeared throughout the West in one hundred and sixty-five newspapers, reaching five and a half million readers.

CHEVRON DEALER NEWSPAPER ADVERTISING

Full-color advertisements in Sunday magazine sections emphasized the locally-operated Chevron Gas Stations . . . focused attention on the cream-green-and-burgundy color design, home-owned service, and the availability of Company products.

Courtesy, Standard Oil Company of California

Fig. 149



INDUSTRIES THAT USE MATHIESON CHEMICALS

	Caustic Soda	Soda Ash	Bicarbonate of Soda	Anhydrous Ammonia	Aqua Ammonia	Liquid Chlorine	H T H Products	Fused Alkali Products	Dry Ice	Carbonic Gas	Fire Protection Service	Sodium Chlorite Prods.	Sodium Methylate	Chlorine Dioxide
Aircraft				●		●	●		●	●	●			
Aluminum	●	●			●	●			●		●	●		
Bakeries	●	●	●	●			●	●	●	●	●	●		
Beverages	●	●	●	●			●	●	●	●	●	●		●
Chemicals	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Cleansers	●	●	●		●		●				●			
Dairies	●	●	●	●			●	●	●	●	●			●
Disinfectants	●	●		●		●	●				●	●		●
Explosives	●	●		●		●			●	●	●			
Fire Extinguishers			●						●	●	●			
Food Plants	●	●	●	●	●	●	●	●	●	●	●	●		●
Gasoline Refining	●	●	●	●	●	●	●				●	●		
Glass		●									●			
Government	●	●	●	●	●	●	●	●	●	●	●	●		
Ice Cream Plants	●	●	●	●			●	●	●	●	●			
Iron and Steel	●	●	●	●		●		●	●		●			●
Laundries	●	●	●		●		●				●	●		
Leather	●	●	●	●	●	●	●				●	●		
Lubricating Oils	●	●		●		●	●		●	●	●			
Machine Tools	●	●		●	●	●	●	●	●		●			
Meat Plants	●	●	●	●		●	●	●	●	●	●			●
Non-Ferrous Metals	●	●		●	●	●		●			●	●		
Paint & Varnish	●	●		●	●	●	●		●	●	●	●		
Paper Mills	●	●	●	●	●	●	●	●	●	●	●	●		●
Pharmaceuticals	●	●	●	●	●	●	●		●	●	●	●	●	
Plastics	●	●	●	●	●	●	●		●		●	●		
Public Utilities	●	●		●		●	●		●	●	●	●		●
Rayon	●	●	●	●	●	●	●		●	●	●	●		
Refrigeration	●			●	●		●		●	●				
Rubber	●	●	●	●		●	●		●		●	●		
Sewage Disposal	●					●	●		●	●				
Soap	●	●		●	●						●	●		●
Storage Batteries	●		●								●			
Synthetic Detergents		●	●			●					●			●
Textile Mills	●	●	●		●	●	●	●	●	●	●	●		
Water Purification	●	●		●	●	●	●	●	●	●		●		●

Courtesy, The Mathieson Alkali Works, Inc.

Fig. 150

CHAPTER 14

MAKING FINANCIAL STATEMENTS UNDERSTANDABLE

The tendency to make all published financial statements more complete and informative became evident in the twenties. At that time, some forward-looking corporate officers began to see in the broadening of corporate ownership a need for giving investors more understandable financial information. The movement gained ground during the economic crisis of the thirties. The Government's investigations of corporate and stock-market practices after the collapse of the securities market in 1929, made corporations want to allay stockholders' suspicions that important facts were being withheld. Annual reports, consequently, began to offer more comprehensive information. Corporations that wanted to raise money through public issues were required by the Securities and Exchange Commission to prepare detailed financial statements for public use. Companies with stocks listed on exchanges had to make public financial information that previously was known only to top management. These requirements loosened up attitudes toward giving out information.

As management began to give more information in the annual report, the function of the report broadened. Management began to want its stockholders and others to read their annual reports. It therefore improved the format and livened up the narrative with charts, graphs and illustrations. Then it tackled the job of making the formal financial statements understandable.

The effort is still in the experimental stage. A few outstanding companies have introduced their own ideas of simplification. Each one has determined for itself what everyday words should be substituted for troublesome accounting terms.

The advances that have been made in clarification may appear prodigious, but they are minor when compared with the improvements that remain to be made. Many more corporations must give their stockholders, workers and the public complete, fair, unbiased, understandable and reliable accounting information if confidence in private business enterprise is to be sustained and improved. The remarks at page 31 about presenting accounting data in two forms and the ideas for better financial reporting given at pages 31 et seq., should be read in conjunction with this chapter.

OLD METHODS OF CLARIFYING CONVENTIONAL FINANCIAL STATEMENTS

The techniques for simplifying conventional financial statements have advanced gradually. Among the earliest improvements, now in common use, are:

1. *Captions* for each class of items in the financial statements. For example, all current assets are grouped under the heading "Current Assets."

2. *Footnotes.* Items requiring further explanations are marked with an asterisk or superior figure. The star or figure is repeated at the foot of the statement with the explanation.

3. *Notes or comments.* An item in the financial statement that requires clarification is followed by " (note 1) ," or whatever the appropriate number is. Immediately following the statement is a page or two of notes correspondingly numbered. The note method is also used for general comments on the financial statement as a whole. For example, a note might explain whether there have been any changes in the handling of the accounts that would affect comparison of the items with previous years.

Some companies avoid footnotes and other notes in their annual reports to stockholders in recognition of the modern insistence upon simplification in corporate reporting. They accomplish this by including in the text of the report full explanations of all conditions and transactions that merit explanations.

4. *Schedules or tables.* In order to keep the financial statements from becoming bulky, muddled and complicated, details are given in schedules or tables. The following is a list of such schedules:

Balance-Sheet Schedules	*Income-Statement Schedules*
Property account.	Depreciation, renewal, maintenance.
Securities owned.	Nonoperating income.
Investments and advances (affiliated companies).	Other charges and credits.
Funds in the hands of trustees.	
Inventories.	
Deferred charges.	
Depletion, depreciation, amortization and current maintenance reserves.	
Funded debt.	
Capital stock.	
Contingent liabilities.	

ADVANCED METHODS OF SIMPLIFYING FINANCIAL STATEMENTS

The aim of simplification is to make the items and figures shown in the balance sheet and income statement meaningful to the reader. In other parts of this book, the techniques for interpreting the various parts of the financial statements through the narrative, charts, maps, statistical tables, comparisons, ratios and other illustrations, have been considered. Here we are concerned only with the ways in which the balance sheet and income statements, as such, have been made more intelligible to persons with no accounting background.

If a stock exchange has something to say about the company's form of financial statements, it is wise to discuss any radical changes from the conventional form in advance with the exchange. If the corporation plans to present a simplified form of balance sheet or income statement in addition to the usual accountant's forms, no such preliminary discussion is necessary.

WHAT IS HARD TO UNDERSTAND ABOUT A BALANCE SHEET?

To the untrained reader of financial statements, the balance sheet has these perplexing features:

1. Liabilities always equal assets. The reader does not see in the balance sheet the equation: Assets equal Liabilities plus Capital. He cannot differentiate between proprietorship items and the liabilities. Hence, he thinks everything on the right hand side is a liability. If the liabilities equal the assets, how does the company continue in business, he ponders.

2. The mathematical exactness of the totals in the two sides makes him feel there is something tricky about the set-up.

3. Certain terms that have a technical meaning to accountants have a different meaning in every-day use. The difference leads to misunderstanding. For example, *capital*, in the average reader's mind, is something owned. Why then does it appear with the liabilities? *Reserves* are things held back, set apart, or saved for future use, he figures. Isn't that something the company owns? Why are they placed with what the company owes? To his mind, *surplus* is an extra quantity left over. Then why isn't it with the assets? That item must have been put there to balance the scales, he guesses. See items 5, 9, 10, page 178.

4. Other accounting terms are utterly devoid of meaning to many readers—for example, deferred charges, deferred credits, accruals, capital surplus, earned surplus.

Efforts to simplify the balance sheet are aimed principally at eliminating these difficulties.

WAYS OF SIMPLIFYING THE BALANCE SHEET

Some of the simplification methods described here may be applied to the conventional balance sheet, others so materially change the accountant's form that it is advisable to give both the simplified form and the conventional form. In that case, a note should be included referring the reader from one form to the other. The methods of simplifying the balance sheet, listed below, are illustrated in the specimen, simplified balance sheets reproduced at pages 183 et seq.

1. Tell the reader what a balance sheet is, if that title is used. See, for example, statement at page 184 and excerpt at page 119.

2. Use a title that is more understandable to the layman than "Balance Sheet." For example, "Statement of Financial Position," "Financial Position at the End of the Year," "Statement of Financial Condition," "How We Stood on December 31, 19—."

3. Present the balance sheet in a single-column form, bringing out the equation: Assets minus Liabilities equals Stockholders Equity. In other

words, show the liabilities as a deduction from the assets. This set-up helps to bring out more clearly for the lay reader that the difference between the assets and liabilities is the "net assets," "net corporate investment" or "net worth"[1] of the company. It enables the reader to see that "net assets" or "net worth" is the same as the "stockholders' equity." Another advantage of the single-column arrangement is that there is no necessity for showing a balancing of assets against liabilities plus stockholders equity. A balance may be shown between net assets and the proprietorship part of the statement.

4. Identify the assets as things owned by the business and the liabilities as amounts owed.

5. Distinguish between the amounts owed and the items that represent stockholders' equity. Use such new names as the following for the traditional "Capital Stock" section: "Evidenced by," "Ownership evidenced by," "Represented by," "Derived from," "Sources from which the above net assets were obtained," "Shareholders' Ownership."

6. Use round numbers, omitting all cents.

7. Include an explanatory statement in everyday language for each item that is not absolutely clear from its terminology. Here are two illustrations. The first tells what is included in the term "Property"; the second explains "current assets" and tells what "cash" includes. Where this method is used, it is possible to omit entirely the usual accounting terminology, as is done in some of the examples at pages 184 et seq.

Real Estate and Plants, Raw Sugar Properties, Warehouses, Cooperage, Railroads, Tank Cars, Steamships, Coal Barges, Wharves and Garages, with their machinery, equipment, etc., and timber and other lands owned in fee or through ownership of the entire capital stock of constituent companies, at cost less depreciation $80,571,809.70

CURRENT ASSETS:
This group comprises cash and items which in the ordinary course of business are convertible into cash in time to meet maturing obligations.

Cash .... $ 566,483.22
This item represents money on deposit in banks, in transit, and on hand in the companies' offices.

8. If the term "deferred charges" is used, explain it as amounts paid in advance, with such terminology as: "Costs Allocable to Future Operations" (see page 183), "Costs Applicable to Future Periods," "Charges Applicable to Future Operations." It is acceptable to omit the words "deferred charges" entirely and merely to include the items, explaining them as prepaid items. Do not use the word "accrued" without an explanation.

9. Avoid the use of the word "reserve." In the accounts receivable item, merely say "receivables less estimated bad debts." Notice how the figures for "Property, plant and equipment" are explained in the balance sheet on page 184, to take care of the depreciation reserve.

10. Do not use the words "surplus," "capital surplus," "earned surplus" or other technical surplus account names. Replace "surplus" with such expressions as: "Profits employed in the business," "Earnings reinvested," "Income accumulated and retained in the enterprise," "Earnings accumulated since inception of the company retained and invested for the conduct of the business," "Income from operations retained and used in the business," "Income reinvested in the business" or some similar expression. See page 182 for Caterpillar Tractor Co.'s thoughts on finding a substitute for surplus.

11. Give some indication that the assets are not all valued in the same way, that the valuations do not all represent realizable values. This can be accomplished by showing how the assets have been valued. See page 183.

12. Try graphics to convey the "balancing" idea. Show the net assets in which capital is invested as balancing with the owners' investment in the business.

CATERPILLAR TRACTOR CO. SIMPLIFIED BALANCE SHEET

The simplified form of balance sheet used by the Caterpillar Tractor Co. is reproduced at page 183. In an article in the *Journal of Accountancy,* March 1947, entitled "Financial Statements for Corporate Annual Reports," W. Blackie explains the thinking behind Caterpillar's simplified forms. Some of the Company's ideas are referred to at page 182.

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[1] The term "net worth" for the difference between assets and liabilities is fading from use, "net corporate investment" has appeared as a substitute. Nevertheless, some modernized balance sheets still use the term "net worth" in spite of the fact that a balance sheet "does not purport to reflect and could not usefully reflect the value of the enterprise or of the equity interests therein." (*Accounting Research Bulletins, No. 12,* American Institute of Accountants, Reports of Committee on Terminology. This committee has issued several reports that have been published as accounting research bulletins. Anyone concerned with reforming current practices of reporting financial information would do well to look at these bulletins.)

The Caterpillar form of balance sheet is a single-column set-up. The title "Balance Sheet" is not used. Instead, the title is merely "Financial Position." Mr. Blackie says that Caterpillar Tractor Co. chose not to use "Condition" because it conveyed ideas of realizable value and, possibly, liquidation. It chose "position" instead.

The balance sheet starts with the current assets. It is followed immediately by the current liabilities. These are subtracted from the current assets. The difference is the net current assets, and they are explained in a separate statement. Then come the so-called deferred charges, described in this balance sheet as "cost allocable to future operations." This is followed by the fixed assets and the intangibles, such as patents and trademarks. These are added to the net current assets, and the resulting figure is just a total. The long-term debt is then deducted to arrive at the "net assets" in which capital was invested on the day of the statement.

The "net assets" figure is followed with the words "Derived from." Under this heading just two items appear, each of which is explained in a separate statement: Capital stock, and profit employed in the business.

When the balance sheet is constructed in this way, the mathematical exactness between the net assets and the total of the stockholders' equity is no puzzle to the lay reader. The form of balance sheet described here was used by Caterpillar Tractor Company in its 1946 annual report. It completely replaces the conventional balance sheet and avoids the presentation of two forms of statements—the conventional and the simplified.

WHAT IS CONFUSING ABOUT A CONVENTIONAL INCOME STATEMENT

It is fair to assume that some readers of the income statement harbor the false notion that corporate income is like their personal income—money that can be spent. With such an erroneous concept of income in mind, they may well conclude that all of the corporate income can be distributed without hurting the business. Neither simplification of form nor substitution of words in the income statement will eliminate such misunderstanding. Education through the narrative portion of the annual report may help. That was evidently the thought in the minds of Simmons Company executives when they included in one of their annual reports a paragraph explaining that "Earnings Are Not Idle Cash" (see page 94).

In the conventional income statement itself, the following characteristics retard reader interest and understanding:

1. There are too many groups of items, each with its own sub-total, involving separate deductions from preceding sub-totals. See item 2, page 180.

2. The greater the number of sub-totals, the more times the word "profits" appears in the statement. It is confusing to a lay reader to find "gross profit on sales," "net profit on sales," "net profit on operations," and "net income" all in the same statement. Small wonder that the public thinks business makes much more profit than it does! See item 2, page 180.

3. The successive deductions of classes of expenses—selling, general and financial—give the erroneous impression that certain classes of expenses have a prior claim against revenues. See item 2, page 180.

4. The exact significance of the income account's first and largest item—sales—escapes the reader who has little or limited business background. Does the amount captioned "Sales" represent the total value of the orders received by the company during the year? Or does the sum represent payments received from customers during that period?

5. In those instances where the published income statement shows how cost of goods sold were arrived at (and too few statements do), the handling of the inventory item may give trouble. See item 6, page 180.

6. The vast majority of people do not grasp the real meaning of the word "depreciation." See item 7, page 180. They are especially perplexed when they find "reserve for depreciation" mentioned in the balance sheet and not in the income statement.

7. If the income statement contains a separate group of items that the accountants seem to have tacked on after they got through showing the results of regular operations, the reader is unable to understand their significance. We refer here, of course, to the nonoperating, extraneous and nonrecurring gains and losses, and to the corrections of operating profits or losses of prior periods.[2] See item 8, page 180.

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[2] Among the nonoperating, extraneous and nonrecurring gains are such items as: Gain on the disposal of a factory, profit on

WAYS OF SIMPLIFYING THE INCOME STATEMENT

The methods of simplifying the income statement, listed below, are illustrated in the specimen, simplified income statements reproduced at pages 188 et seq.

1. Give the statement an expository title. Such titles as "Our Operating Record in 19—," "Results of Operations," "Income and Expenses in 19—," "Summary of Income," "Statement of Net Income," "Statement of Income and Expenses," "Statement of Operations" have been used frequently. The title "Profit and Loss Statement" is not recommended; the statement cannot be one of profit and loss at the same time.

2. Use a short-form income statement that eliminates all but two groups of items: One to show income items and their total, and another to show the costs. The difference is the profit for the period. The functional operating report described below is a short-form statement.

3. Include an explanatory statement of every item in every-day language.

4. Tell in simple language what happened to the net profits of the year—what part was distributed to the stockholders as dividends, what part was retained in the business. Such terminology as the following may be used to describe the amount remaining after dividends: "Amount retained in enterprise," "Income retained in business," "Earnings of this year reinvested in the business," "Net amount carried to earned surplus," "Carried forward for future needs."

5. Clarify the meaning of the sales figure.

6. If cost of goods sold is set forth, show the opening inventory as an addition to purchases and the closing inventory as a deduction from costs. This will be much more intelligible than adding a decrease in inventory or subtracting an increase in inventory.

7. Eliminate the word "depreciation" and substitute some such explanation as: "Charges to cover the wearing out of tools and buildings," "Portions of cost of buildings, machinery and equipment allocated to operations (depreciation)," "Wear and exhaustion of plants and equipment," "Wear and exhaustion of facilities." If the word "depreciation" is used, explain it. See page 189 for example. See also the discussion of this suggestion at page 182.

8. If a combined statement of profit-and-loss and surplus is used and items of extraordinary and nonrecurring charges and credits as well as corrections of operating profits and losses of prior periods are shown, these items should be omitted in an additional, simplified statement. Their effect, of course, will be shown in the item "profit employed in the business (at the end of the year)."

THE USUAL SHORT FORM INCOME STATEMENT

The most common short-form or simplified income statement has three captions: (1) What the company received, (2) what the company spent, (3) what the company earned. It is sometimes referred to as a single-step statement, because all of the deductions from income are taken in one step rather than in groups, as in the conventional income statement. The three-caption form has found ready acceptance because: (1) It eliminates possible misunderstanding of profits by using the word "profit" or "income" only once in the statement, and then with the meaning of net income, (2) it suggests that there is no ranking of costs or priority of expense deductions, (3) it educates the reader to know that all costs must be recovered before there is profit, (4) it is easily understood, and therefore believed, by the casual reader.

This single-step statement has taken the place of the conventional income statement in many reports, even in instances where the conventional two-column set-up of the balance sheet is still being used. As long as receipts are large enough to take care of all expenses and leave a balance for the stockholders, there would seem to be no particular disadvantage to totaling all expenses and deducting this total from receipts. However, when the company falls on leaner years, the priority of payment may assume greater importance. Also, though the single-step income account might be adequate for the lay reader, the financial analyst will often be interested in the balance after each deduction, in order to compute various income-account ratios and interest-and-dividend cov-

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the sale of investments, amounts collected in a successful lawsuit. Among extraneous, nonrecurring losses are: Losses resulting from storms or other catastrophes not covered by insurance, losses resulting from sales of fixed assets or investments. Corrections of operating profits or losses of prior periods include, for example, correction of profit of a previous year due to an undervaluation of inventory in that year. These items are usually clearly distinguished from the operating profits and losses for the year. In most instances they are shown separately in the statement of surplus.

erage and to estimate the effect of future growth or shrinkage of sales on net profit. For this reason, many companies include the conventional form of income statement along with the simplified form.

THE FUNCTIONAL OPERATING REPORT

The functional operating report or short-form income statement recommended by the American Economic Foundation[3] has but two captions: (1) What the company received, (2) what the company spent. Profits are regarded as a cost of using the tools furnished by the stockholders' investment and are included with the other costs of doing business. The following form of simplified operating statement used by the Vanadium-Alloys Steel Co., closely follows the functional operating report recommended by the American Economic Foundation.

Simplified Operating Statement

	Total	Per Worker
Received from Customers for Goods and Services	$——	$——
These Receipts Were Expended for the Following:		
Cost of Goods and Services Bought from Others	$	$
Cost of Payments Ordered by Government (Taxes)		
Cost of Human Energy (Wages and Salaries)		
Cost of Tools Wearing Out (Depreciation and Depletion)		
Cost of Using the Tools (Profit)		
Total	$	$
Tools in Use by Company Workers		
Ratio of Profit to Tools		

Those who advocate the use of this functional operating report see in it these advantages in addition to those given above for the three-caption short form:

1. By identifying profits as a "cost of using the tools," the reader is better able to see the place of the tools (stockholders' investment) in the operating picture. In other words, the function of profits is explained. Profits no longer appear as a residue after all costs have been met, but as a necessary cost. The form implies that if the cost is not met, the providers of the tools will withdraw them. When profits are not included in the costs, the form implies that the providers of the tools will continue to make them available whether or not there are profits. Both implications are subject to criticism.

2. The nomenclature of the report emphasizes several basic economic truths in the operation of the private enterprise system. For example: That the customer is the boss, that the customer really pays the corporation's taxes, that stockholders have actually participated in the year's operations by furnishing the tools and are entitled to payment for this contribution.

The following criticisms may be made of the functional operating report:

1. It is too condensed to satisfy the demands of labor.

2. It is incorrect to include profits as a cost or expenditure, as though it were an unavoidable charge.

3. Using the expressions "cost of tools wearing out" for "depreciation," and "cost of using the tools" for "profit," may give the impression that the tools are being paid for twice.

4. It gives the impression that the profits are entirely available for distribution to the stockholders and fails to show the amount reinvested in the business or set aside for future growth.

Proponents of the functional operating report answer these objections by saying that the report contains an explanation of each of the items in the simplified form.

OTHER WAYS OF MAKING FINANCIAL STATEMENTS UNDERSTANDABLE

The previous ideas suggested for helping the reader understand the financial statements, dealt with the language and arrangement of the balance sheet and the income statement. The following ideas deal with the figures and suggest ways of making them more comprehensible.

1. Reduce every figure in the balance sheet to a per-share-of-stock basis for the current year and the previous year.
2. Reduce every figure on the asset side of the balance sheet to a per-worker basis. Do the same for the items in the income statement. For examples, see pages 184 and 188.

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[3] See *The Functional Operating Report—The New Form of Social Accounting for Use in Public and Employee Relations,* by Robert R. Doane and Joseph E. Canning, published by The American Economic Foundation, 295 Madison Avenue, New York 17, N. Y., 22 pages, $1.00.

3. Include comparative figures and analytical percentages. This subject is discussed at page 33.
4. Give ratios that are useful in analyzing financial statements for credit and investment purposes. See page 35.
5. Reduce every figure in the simplified income statement to an average amount for each employee-week worked. See page 267.
6. Reduce every figure in the simplified income statement to a "Per $100 of Sales" figure or a "cents per dollar of sales" figure. For example, see page 188.
7. Make figures comprehensible by reducing them arbitrarily to a "little company" size. See page 268.

AVOIDING THE WORD "SURPLUS"

The following paragraph from the Blackie article[4] shows how much thought went into the choice of a substitute for "surplus" when Caterpillar Tractor Co. eliminated that word from its balance sheet.

> For our purpose, the term "surplus"—even if "earned"—was, of course, thoroughly objectionable. As far as possible we intended to use words in their popular everyday meaning, and, despite its special accounting connotation to the initiated few, "surplus" inevitably conveyed to the general reader the idea of too much, more than enough, a lot of corn in a lot of bins, left-over war matériel. In search for a substitution, thoughts naturally turned to such alternatives as "undistributed profits" and "profit invested in the business". "Undistributed", however, seemed to convey an idea that maybe the profits would be distributed—when, of course, they could not be; and "invested" seemed to create a possible question related to the purchase or other acquisition of capital stock —a common implication of the term. "Reinvested" we rejected since it seemed merely to compound the trouble with "invested" by raising a time element. "Kept" had perhaps only the disadvantage that it was too crudely simple; "left" had a strong appeal; and "held" seemed to be more acceptable when it was spelled "retained". So we used "retained"—until we encountered sufficient objections from our "relations" people who thought that the term failed to connote the "putting to use" inferred by "invested". So we changed to "employed".

Where "surplus" is used, an explanation may be helpful. For examples, see page 260.

AVOIDING "DEPRECIATION" AND "RESERVE FOR DEPRECIATION"

In eliminating the words "depreciation" and "reserve for depreciation" from its financial statements, Caterpillar Tractor's executives called the annual depreciation charge "portion of cost (of facilities) allocated to operations" for the year and the reserve "portion of cost allocated to operations to date." (See forms at pages 189 and 108.) The same terminology was carried out in the schedule of land, buildings, machinery and equipment (see page 108). In the balance sheet (page 183), the property account reads:

> Land, buildings, machinery and equipment—cost not allocated to operations (statement 6).

In the income statement, the deduction for depreciation is labeled:

> Portion of cost of buildings, machinery and equipment allocated to operations (depreciation).

According to those who decided upon the substitution, depreciation in the colloquial sense relates to lessening of values without regard to the cause of loss. In the accounting sense, depreciation is not a valuation process, but one of allocation. The method of computing depreciation used by accountants generally does not attempt to measure changes in value or degrees of physical exhaustion within an accounting period. It merely distributes the cost of the applicable facilities over their estimated service-life. The allocation terminology avoids terms that give trouble to the average reader, and better describes what has taken place.

THE TREATMENT OF TAXES

The income statements included in many annual reports show the reader the company's net income before Federal taxes; that is, taxes are not included in the list of expenses but are shown as something coming out of profits. Those who are opposed to this treatment, reason: (1) It is contradictory to speak of profits before income taxes, because such taxes are as much a cost of doing business as any other expense, (2) it gives the erroneous impression that if taxes were lower, profits would necessarily be higher—they might and they might not, (3) it fails to recognize that Federal taxes are, in one way or another, taken into account in determining prices of the product sold and hence are passed on, (4) it implies that government is sharing the profits, although taxes are not a distribution of profits to the government, since the government is not an equity holder.

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[4] "Financial Statements for Corporate Annual Reports," by W. Blackie, *Journal of Accountancy*, March 1947, p. 198.

These arguments are convincing. Taxes should be shown as a cost of doing business.

SIMPLIFIED FINANCIAL STATEMENTS

A number of simplified balance sheets and income statements are given in the following pages. In all instances but one, the simplified forms were in addition to conventional statements. In the case of the Caterpillar Tractor Co., the conventional forms were modified and the statements (reproduced below and at page 189), supplemented by various explanatory statements, were certified by the public accountants.[5]

The forms are presented for the ideas they contain, rather than as models. Figures and notes have been omitted to emphasize the simplification features. Additional ideas for presenting the income statement to employees are given at pages 267 et seq.

SIMPLIFIED BALANCE SHEETS

[Caterpillar Tractor Co. (a California Corporation)] **Statement 2**

FINANCIAL POSITION DECEMBER 31, 19—

Current Assets:			
Stated on basis of realizable values:			
Cash		$	
United States Treasury Notes—Tax Series C			
Receivables, less estimated bad debts			
		$	
Stated on basis of cost or market, whichever lower:			
Inventories			
			$
Deduct: Current Liabilities:			
Payables		$	
Federal income tax	$		
Deduct: United States Treasury Notes—Tax Series C			
Net Current Assets (Statement 5)			$
Insurance, Taxes, Etc.—Cost Allocable to Future Operations			
Land, Buildings, Machinery and Equipment—Cost Not Allocated to Operations (Statement 6)			
Patents, Trade-marks and Other Intangibles—Stated at Nominal Amount			
			$
Deduct: Ten-year 2% Debentures Due 1956			
Net Assets			$
Derived from:			
Capital stock, common—stated capital (statement 7)			$
Profit employed in the business (statement 7)			
			$

Capital Stock

	Number of Shares	
	Authorized	Issued
Preferred: five per cent cumulative—par value $100 per share		
Common: without nominal or par value		

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[5] See "Trends in Accounting Terminology and Form Revealed by 1946 Corporate Reports," by Aubrey Williams, *Journal of Accountancy*, October 1947, p. 300, for a review of innovations in certified financial statements.

[The Borden Company]

HOW WE STOOD ON DECEMBER 31, 19—

The Balance Sheet at the end of the year is a statement which shows what is Owned and what is Owed,—the difference representing Net Worth. This statement is shown below in a descriptive manner. The values have been divided by the average number of employees (26,820) to show the investment per employee.

			Investment Per Employee
We Owned (*Assets*)			
Cash—In banks and on hand available to pay for milk and other products, payroll, supplies, freight and other services. The funds on hand are only sufficient for about one month's average operation		$	$
Marketable Securities—Chiefly United States and Canadian Government bonds, some of which are on deposit with various governmental authorities to guarantee compliance with their milk control laws, workmen's compensation acts, etc.			
Receivables—Money to be received by us from customers and others. This represents about 17 days' sales, most of which was collected in January			
Inventories—Stocks of finished goods, goods in process, raw materials and supplies in plants and warehouses			
Miscellaneous Assets—Consisting principally of investments in, and advances to, foreign affiliated companies, mortgages received from sales of properties, and loans to farmers to purchase cattle			
Property, Plant and Equipment—Plants in which our employees work; also machinery, processing and delivery equipment, fixtures, etc., used in our operations; after deducting the allowance for accumulated wear and tear to date (which is the depreciation reserve)			
Prepaid Items and Deferred Charges—Prepaid taxes, rents, insurance, etc., and the excess of cost over par value of stock acquired and held in the treasury for subsequent corporate use			
Trade-marks, Patents and Good-will—For which the Company expended millions in advertising and research. For conservative purposes this is carried at a nominal amount			
Total of what we owned (Assets)		$	$
We Owed (*Liabilities*)			
Current Liabilities—Including bills for milk, materials, supplies and services purchased, principally in December, but not due for payment until January. This also includes provision for commissions and payrolls for the last part of the month and items on which bills have not been rendered, such as taxes exclusive of U. S. Income Taxes which have been provided for by our holdings of Treasury Savings Notes, and other miscellaneous expenses, as well as maturities of serial notes due in 19— in the amount of $——	$		
Non-current Liabilities—Represents liabilities not payable within the next twelve months. Notes payable after 19— in the amount of $—— is the principal item herein			
Total of what we owed (Liabilities)		$	
Net Worth (*Stockholders' Funds and Reserves*)			
Represented by:			
Reserves—For contingencies that may arise and for other operating purposes	$		
Capital Stock and Surplus—Being the stockholders' investment in the company and that part of past earnings retained in the business to strengthen the Company's financial condition			
Total net worth (Stockholders' funds and reserves)		$	

[The Murray Corporation of America]

Usually a corporation's balance sheet is presented in a formal manner which may be hard to understand if one is not familiar with accounting. The formal balance sheet of The Murray Corporation of America as of ——, 19—, may be more easily understood if presented this way:

Cash		$
Our customers and others owe us (Accounts Receivable)		
Steel, materials and supplies to be sold as product (Inventories)		
Current expenses paid for in advance (Insurance, taxes, etc.)		
		$
Out of this must come:		
What we owe for the steel, materials, supplies, expenses and taxes	$	
Due to employees for wages		
This difference—the money used to run the business is "Working Capital"		$
Besides Working Capital we have these assets:		
Buildings, machinery and equipment	$	
Miscellaneous other assets including investments and goodwill		
Balance—Interest of 9,300 Stockholders		$

[Erie Railroad Company]

FINANCIAL POSITION AT THE END OF THE YEAR

	On December 31, 19—	On December 31, 19—	Increase or *Decrease*
The Company had investments in land, railroad tracks, terminal facilities, shops, locomotives, freight and passenger cars and other fixed property, less depreciation and amortization accrued of	$	$	$
In addition the Company had investments in capital funds and in stocks and bonds of and advances to affiliated and other companies and United States Treasury Securities carried at			
Total Investments			
The Company had cash working capital of			
Other railroad companies and others owed the Company			
The Company had on hand fuel, rails, ties, bridge material and other supplies necessary for keeping road and equipment in good repair			
Deferred assets and unadjusted debits, including items owed but not yet available to Company			
The Assets of the Company totaled			
The Company owed for materials and supplies, wages and balances to other railroad companies, and interest and rents accrued but not yet due			
Taxes accrued but not due			
Deferred liabilities and reserves, including items due to others not yet adjusted			
The total of these liabilities, credits and reserves was			
After deducting these items from the total assets there remained available for the capitalization of the Company net assets of			
The capitalization of the Company consisted of the following:			
Funded Debt, including bonds, equipment obligations, etc.			
Preferred Stock (including stock authorized under Plan but not issued)			
Common Stock (including stock authorized under Plan but not issued)			
Making a total capitalization of			
After deducting this capitalization from net assets there remained a surplus of	$	$	$

Left-hand page of two-page spread; see right-hand page below.

[Electric Boat Company]

HOW THE COMPANY STOOD FINANCIALLY AT

Balance Sheet in Simplified and Explanatory Form

The Company Owned	Explanation	19—	19—
CASH—In banks and on hand	Available for use in meeting payrolls, current bills for materials and other usual business expenses.	$	$
U. S. Government bonds and notes	Instead of carrying unnecessarily large cash balances in the banks, the Company invests some of its liquid funds in government securities.		
Salable securities	Miscellaneous stocks and bonds which were sold in 19—.		
Amounts owed by the United States Government	(a) Amounts owed to us principally for products delivered to or work done for the U. S. Navy. (b) Estimated net refund of Excess Profits taxes paid for the year 19—.		
Various amounts owed by others	We did some subcontracting work for, and sold products to private concerns. Such bills are usually paid promptly by the customers.		
Materials on hand and partly finished work	Raw materials and supplies in plants and warehouses and unfinished products including money paid for labor. It is expected that a large part of this 19— inventory will be used in products to be delivered and paid for in 19—.		
Amounts the company has paid in advance	These are amounts paid in advance, such as premiums for fire insurance, etc., on unexpired policies. $——. of the 19— amount is for past service premiums paid in full on the Company's Retirement Annuity Plan.		
Investment in Canadair Limited	This is the original investment made in 19— in the stock of the Company's new Canadian aircraft subsidiary.		
Miscellaneous	Miscellaneous investments representing carry over items. They were written off in 19—.		
Land, buildings, machinery and equipment	The Company's plants and equipment, less an allowance for accumulated wear and tear (which allowance is the "Depreciation and Amortization Reserve" of $——. at the end of 19—).		
Patents, trademarks and goodwill	The Company has spent millions in research, development and advertising in the past forty-six years, but this is carried at a nominal amount.		
Total Owned		$	$

Right-hand page of two-page spread; see left-hand page above.

[Electric Boat Company]

THE END OF 19— —— COMPARED WITH 19—

Balance Sheet in Simplified and Explanatory Form

The Company Owed	Explanation	19—	19—
Current bills for materials and supplies	The Company owed its material and service suppliers these amounts over the year end on current bills.	$	$
Current wages and salaries not paid as at the year end	The Company owed its employees for their services unpaid over the year end. These amounts were current and were paid sometime in the following month.		
Federal income and other taxes	These amounts cover Federal, State and local taxes which must be paid by the Company, in the case of 19— taxes, during 19—.		
Dividend on Preferred stock	This dividend was declared in December and paid on January 10, 19—.		
Amounts paid in advance for partly finished work	Customers pay the Company on account from time to time on partly completed products. The Company's debt is discharged when the goods are delivered.		
Total Owed		$	$

[Continued on next page]

[Continuation of right-hand page of two-page spread]

Remaining for Stockholders			
Amounts set aside for "post-war" and contingencies	Most of the 19— amount represented an estimate of the possible cost of post-war readjustments to peace-time activities. The Company completed most of its readjustments in 19— and charged the whole cost to earnings; therefore $——. has been transferred to "Past Earnings Saved" below. Because of some continuing uncertainties, the balance of $——. remains for unforeseen possible losses.	$	$
The stockholders' investment	This arbitrary amount represents the "par value" of the Common stock (at $3.00 per share) plus the "stated value" of the Preferred stock (at $50.00 per share) of the stockholders' investment. "Par Value" and "Stated Value" are legal terms which sometimes are indicative of the amount of the original capital.		
Past earnings saved	This sum represents a large part of the funds used in meeting the day to day working needs, such as payrolls and buying materials. It also must stand losses during periods of bad business; and the meeting of emergencies.		
Total "Book Value" Remaining for Stockholders		$	$
		$	$

[Allis-Chalmers Manufacturing Co.]

CONSOLIDATED BALANCE SHEET SIMPLIFIED
as of December 31, 19—

A-C Owns (Assets)	$
A-C Owes (Liabilities)	
Net Worth (Stockholders' Equity)	$

ASSETS

Cash	$
U. S. Government securities	
Notes and accounts receivable—less reserve	
Inventories	
Estimated refund of federal taxes	
Properties and machinery—less reserve	
Other assets	
Total Assets	$

LIABILITIES

We owe for materials and wages	$
We owe for taxes and renegotiation	
We reserve for inventory, and other contingencies	
We owe for money borrowed	
Total Liabilities	$

STOCKHOLDERS' EQUITY

Capital stock outstanding	$
Earned surplus	
Total Stockholders' Equity	$

[Servel, Inc.]

SIMPLE EXPLANATION OF SERVEL'S BALANCE SHEET

As of October 31, 19—

			Average per Employee*
THIS IS THE CAPITAL WE WORK WITH			
Cash in banks	$		
Invested in Government Securities			
Due from customers for our products			
Due from terminated war contracts			
Inventories of materials and products for sale to customers			
In terms of cash, the above amounts to		$	$
AGAINST THE ABOVE WE OWE			
For materials	$		
For salaries and wages			
For taxes			
For dividends			
For other expenses			
THE NET DAY-TO-DAY ASSETS USED IN THE BUSINESS ARE ...		$	
HERE ARE THE TOOLS WE WORK WITH			
Real Estate, buildings, machines of various types and other kinds of equipment	$		
Less: Reserve for depreciation			
		$	
Patents, contract rights and goodwill carried on the books at a nominal amount			
Other miscellaneous assets			
THESE ARE THE ASSETS USED TO PROVIDE JOBS FOR SERVEL WORKERS		$	
AGAINST THE FOREGOING, THE ADDITIONAL AMOUNTS WE OWE ARE AS FOLLOWS:			
Reserve for warranty service to users of our products, etc.			
IN TERMS OF MONEY, THIS IS THE NET INVESTMENT OF STOCKHOLDERS WHO ARE THE OWNERS OF 1,726,926 SHARES OF COMMON STOCK AND 60,000 SHARES OF PREFERRED STOCK		$	

* 5,908 average employment during 19—.

SIMPLIFIED INCOME STATEMENTS

[The Borden Company]

THE RESULTS OF 19— OPERATIONS

The Statement of Net Income, sometimes referred to as the Profit and Loss Statement, shows the results for the full year's operations. In the following tabulation this is shown in relation to each dollar of sales and covers all products and all markets.

		Cents Per Dollar of Sales
RECEIPTS:		
Sales—Amount charged our customers for products sold	$	100. ¢
Other Income—Including rentals, royalties and interest and after deducting interest expense		
Total	$	

[*Continued on next page*]

[The Borden Company—*Continued*]

DISPOSITION:

To Farmers—Paid for milk, cream, butter, cheese, and other products	$		¢
Payroll—Wages and salaries paid to employees			
Taxes—To Federal, State, local and Canadian governments *(This amount for taxes is more than twice as much as the remaining Net Income for the year)*			
Total to Farmers and for Payroll and Taxes	$		* ¢
* This —¢ is the average for all operations including evaporated milk, dry milk, ice cream, and many other products as well as fluid milk. In divisions conducting a fluid milk business only, the ratio of these costs to the sales dollar is higher, being about —¢.			
Costs and Expenses of Operations—Paid suppliers for bottles, containers, packing materials, coal, oil, gasoline, feed, sugar, tin plate, and other materials; and others for services such as freight, rent, light, power, telephone, telegraph, advertising, repairs, and other items, and including special provisions of $—— made because of consequences and contingencies of wartime conditions and transition to a peacetime economy and after absorbing cost factors of inventory fluctuations			
Depreciation—This year's proportion of the amount necessary to provide for the eventual replacement of buildings, machinery, vehicles and equipment, due to wear and tear in the Company's operations			
Total			
Net Income—(Net earnings before dividends)		$	¢

This represents a return on sales of —%. After payment of dividends of $—— to —— Stockholders, the balance of Net Income was left in the business to strengthen the Company's financial condition.

[Caterpillar Tractor Co.]

Statement 1

RESULTS OF OPERATIONS AND SUMMARY OF PROFIT EMPLOYED IN THE BUSINESS

Calendar Year 19—

Sales			$
Costs:			
Inventories brought forward from previous year		$	
Add: Costs Incurred During Year:			
Materials, supplies, services purchased, etc.	$		
Wages, salaries, company contributions for group insurance, retirement plan, unemployment insurance and old-age benefits			
Portion of cost of buildings, machinery and equipment allocated to operations (depreciation)			
Interest (net)			
Federal income tax after deducting $—— computed under "carry-back" provisions of Internal Revenue Code			
		$	
Deduct: Inventories Carried Forward to Next Year			
Costs allocated to year			
Profit for Year			$
Add: Profit Employed in the Business at Beginning of Year			
			$
Deduct: Dividends of $3 per Share Paid in Cash During Year			
Profit Employed in the Business at End of Year			$

[Corn Products Refining Co.]

INCOME AND EXPENSES IN 19—

Income:		
Corn products sold to customers (after allowing for freight, trade discounts, etc.)	$	$
We received income from foreign and domestic investments, royalties, etc. amounting to		
Which gave us a total income of		$
Expenses:		
For shelled corn, fuel, supplies, etc.	$	
For wages, salaries, selling and general expenses		
We set aside reserves to replace worn-out buildings, machinery and equipment to the amount of		
We paid out or set aside for Federal, state and other tax payments		
A total of		$
Net Earnings:		
This left a profit of		$
Out of which the —— owners of our business received, as dividends	$	
The balance, added to stockholders' investment in the Company, was		

[Electric Boat Company]

WHAT THE COMPANY EARNED 19— —— 19—

Statement of Profits in Simplified Form

	Post-War	Pre-War Average	War Average	Five War Years				
Income	1946	Pre-War Years 1936–1940	War Years 1941–1945	1945	1944	1943	1942	1941
The Company Received:								
For Products and Services Sold	$	$	$	$	$	$	$	$
Less Refunds to U. S. Navy—"Renegotiation"								
Add Miscellaneous Receipts—Less Deductions								
Totals	$	$	$	$	$	$		$
Outgo								
The Company Spent:								
Payrolls and Social Security	$	$	$	$	$	$	$	$
Materials and Supplies and Other Costs								
Allowance for "Wear and Tear"								
Federal Income Taxes								
Totals	$	$	$	$	$	$	$	$
Profits								
The Company Earned:								
Income less Outgo	$	$	$	$	$	$	$	$
Set Aside for Reserves		$	$		$	$	$	
Cash Dividends	$			$				$
Retained in the Business								
	$	$	$	$	$	$	$	$

[El Paso Electric Co.]

OPERATIONS FOR 19— AND 19—

THE YEARS' INCOME

	19—	19—
From Sale of Electricity	$	$
From Rentals, Interest and Incidental Activities		
	$	$

THE YEARS' OUTGO

For Operation and Maintenance

	19—	19—
For Employees' Payrolls		
Payrolls Charged Directly to Expense	$	$
For Other Items		
Cost of Fuel Required in generation of 209,544,000 (19— — 179,917,000) kilowatt-hours.		
Purchased Power Cost of 53,108,000 (19— — 70,410,000) kilowatt-hours purchased from others.		
Maintenance Materials, Supplies and Services Repair parts and miscellaneous items necessary to keep the property in good operating condition.		
Other Materials, Supplies and Services A multiplicity of things to run the business.		
Depreciation of Property Wear and tear and obsolescence of equipment and facilities, etc.		
	$	$

For Support of Government

	19—	19—
Federal Income Taxes After Extraordinary Reductions	$	$
Other Federal Taxes		
Property Taxes		
Other State, Local and Miscellaneous Taxes		
	$	$

For Security Holders

	19—	19—
For Holders of Bonds, Notes, etc.:		
Interest and amortization	$	$
Portion of Bond Redemption Premium Equivalent to Resulting Reduction in Federal Income Taxes		
For Holders of Preferred Stock		
Balance for Holders of Common Stock and for Reinvestment in the Business:		
From Earnings		
Extraordinary Reduction in Federal Income Taxes which resulted from Losses and Expenses incurred by Another Member of the Consolidated Group		
	$	$

[Chesapeake & Ohio Railway Co.]

SOURCES AND DISPOSITION OF INCOME

OUR INCOME CAME FROM THE FOLLOWING SOURCES:

	19—	19—	Increase or Decrease
Revenues from hauling coal and coke freight	$	$	$
Revenues from hauling other freight			
Revenues from carrying passengers			
Other transportation revenues			
Rent from equipment used by others, less amounts paid to others			
Dividends from stocks owned			
Other income from non-railroad operations			
Total	$	$	$

[*Continued on page 192*]

[Chesapeake & Ohio Railway Co.—*Continued*]

WE DISPOSED OF OUR INCOME AS FOLLOWS:

Wages	$		$
Materials, supplies, and fuel			
Railway tax accruals, other than federal income and excess profits taxes			
Payments to contractors, associations, other companies, and individuals for services and expenses			
Rentals and expenses paid for facilities used jointly with others, less amounts received from others			
Interest on Funded Debt			
Other interest			
Depreciation, amortization, and retirements			
Total	$	$	$
Net Income before federal income and excess profits taxes	$	$	$
Federal income and excess profits taxes			
Net Income	$	$	$

DISPOSITION OF NET INCOME AND SURPLUS WAS AS FOLLOWS:

Appropriations for Sinking and Other Reserve Funds	$	$	$
Dividends paid on Common Stock			

[American Type Founders, Incorporated]

A CONDENSED AND SIMPLIFIED PRESENTATION OF OUR FINANCIAL STATEMENTS

OUR BALANCE SHEET AS AT MARCH 31, 19—

We Owned:	
Cash and U. S. bonds	$
Receivables from the U. S. Government and other customers	
Claims against the U. S. Government for tax refunds under carry-back provisions	
Finished products, products in process of manufacture and raw materials	
Plants and equipment at depreciated values, with land, including timberlands	
Investments, cash value of life insurance policies and other assets	
Total	$
We Owed:	
To banks for V Loan borrowings in connection with war contracts	$
To others for materials and services	
We Had Set Aside:	
A reserve for Federal taxes	
A reserve for expenditures in connection with reconversion to peacetime production	
We Had Left:	
The stockholders' investment in the business	
Total	$

OUR INCOME STATEMENT FOR THE YEAR ENDED MARCH 31, 19—

We Received:	
Income from sales to the U. S. Government and commercial customers	$
Interest, discounts, dividends, etc.	
A tax credit under carry-back provisions entitling us to a refund of a portion of the Federal taxes paid in previous years	
Total Received	$
We Incurred Expenses:	
For manufacturing materials, wages, supplies, local taxes, etc.	$
For administrative, selling and general expenses	
For interest charges incident to the financing of war activities and for other miscellaneous charges	
Total Expenses	$
Excess of Receipts over Expenses (Net Income)	$
We Applied our Net Income to:	
The payment of a dividend to stockholders	$
Retained profits reinvested in the business	

[Armstrong Cork Company]

THE COMPANY'S POSITION ON DECEMBER 31, 19—

We Owned (Assets)

Cash in banks and on hand available to pay bills and meet pay rolls	$
U. S. Government Securities	
Accounts receivable from customers and others	
Inventories of raw materials, work in process, finished goods and operating supplies	
Investments in foreign companies	
Other investments	
Land on which factories are located	
Machinery, equipment, factory and office buildings, after deducting the allowance for accumulated wear and use to date	
Insurance, taxes, advertising, and licenses and rentals on leased machinery, paid in advance of use or benefit therefrom	
Total of What We Owned (Assets)	$

We Owed (Liabilities)

Wages, raw materials, supplies and services	$
Federal, State and local taxes (after deducting U. S. Treasury Savings Notes)	
Total of What We Owed (Liabilities)	$

Difference between What We Owned and What We Owed
(Reserves and Stockholders' Funds)

Estimated excess cost of replacing inventories depleted during the war period	$
Possible future needs under the unemployment benefit plan, set aside from the amount left in the business by stockholders	
Investment of 10,716 stockholders in preferred and common stock	
Stockholders' past earnings (not distributed to stockholders) reinvested in the business for the purchase of plants, equipment and inventories, and to strengthen the Company's financial condition (known as "Earned Surplus")	
Total Stockholders' Funds and Reserves	$

THE RESULTS OF 19— OPERATIONS

We Received:		
From our customers for products they purchased	$	
From interest on investments, rent and other sources		
Which provided a total income to work with of	$	100.0%
From This Amount:		
We paid:		
For raw materials		
For wages and salaries of employees		
For power, upkeep and supplies		
For selling and administration expenses (exclusive of wages and salaries)		
For Federal, State and local taxes, including property taxes		
In dividends to stockholders for the use of their funds invested in the Company		
We retained for the future needs and protection of the business		
	$	100.0%

CHAPTER 15

MAKING THE NARRATIVE READABLE

This chapter was written by Dr. Rudolf Flesch, author of "The Art of Plain Talk."

The annual report can do much to improve the public relations of a company—but only if the stockholders read it. If they throw the message into the wastebasket after a quick glance, much of the effort has been in vain.

The report writer must realize that most stockholders are not greatly interested in their annual share of company prose. As a piece of reading matter, the report has to compete with that tremendous mass of newspapers, books, magazines and letters that forms the daily reading diet of the average American—in other words, it must beat them in sheer readability in order to get any attention at all.

Moreover, today stockholders are not the kind of people they used to be. Nowadays, the vast majority of the millions of stockholders are not financial experts or people with business experience. They are people in all walks of life—on the average, they are utterly helpless in front of a balance sheet and quite unfamiliar with accounting terms. Of course, stockholders today are not less intelligent than those of twenty years ago, but facts have to be presented to them in simple everyday language or they won't understand what's in the report.

A REPORT MUST BE INTERESTING

"Readable," according to the dictionary, means "easy and interesting to read." Let's forget about "easy" for a moment and let's ask ourselves: What makes a thing interesting to read? Obviously, there is no general answer to that question, since different people are interested in different things. But on the whole it can be said that people are interested in things that are of direct concern to them and in anything else that is human, dramatic, novel or exciting.

For the annual report, this means that the narrative should concentrate on two things: The company's earnings and the stockholder's share in them, and all happenings during the report-year that are of interest to, say, the average newspaper reader. It is usually quite easy to find such material: Every year has its highlights in new products, research and development, labor relations, public relations and advertising, and other activities. As a rule of thumb, the report writer might apply this test to each item: Would it—or did it—make a good newspaper story?

To be interesting, therefore, the report must lean heavily on two types of items:

1. Company earnings during the report year.
2. Newsworthy events during the report year.

Here are two examples of interesting items that were *not* used to full advantage but were buried in a mass of text, so that they were probably missed by most readers.

> In July 19— we became the first commercial sponsor of the mystery program "——," starring ——. This broadcast promoting ——, is over the —— Broadcasting System on a coast to coast hookup of 86 stations——every Tuesday from 8:30 P.M. to 9:00 P.M. Eastern Standard Time. The program is regarded as one of the outstanding mystery radio shows. If you haven't listened in, I suggest that you do so.

This suggests an excellent tie-up of the annual report with the advertising and public-relations program of the company.

> The Shipbuilding Division, during the 19—-19— period, completed and delivered 1,085 vessels including a battleship, aircraft carriers, cruisers, destroyers, and destroyer escorts, army and navy transports, infantry and tank landing craft, Liberty Ships, Victory Ships, oil tankers and other miscellaneous combat and cargo vessels, and in addition converted, repaired or serviced 37,778 vessels.

This sentence, embedded in a paragraph dealing with financial matters, would make any good newspaperman weep. What a story thrown away! What an opportunity to make the report an exciting and unforgettable document!

A REPORT MUST LOOK READABLE

Many interesting items in annual reports are lost because they are hidden away in the middle of solid, unappetizing chunks of print. To be readable, a report must first of all *look* readable. A writer is only half through his job when he has "written the report"—dictated it to a stenographer or a dictaphone. He will be wise to spend just as much time in dressing his narrative in type.

There are four things that make a printed text look readable:

1. Short paragraphs.
2. Frequent subheadings.
3. Large type.
4. Short lines.

What is a short paragraph? Naturally, there is no fixed answer. But the paragraphs in most annual reports are far too long, they look uninviting and dull. As a rule of thumb, a paragraph should not run over half a dozen sentences, and since the average sentence in popular writing has about seventeen words, an average paragraph shouldn't have more than one hundred words.

Even more important is the matter of subheadings. For the stockholder, as for any other reader, it is psychologically necessary to break up the pages into small manageable units. Strange as it may seem, five groups of four paragraphs each look easier to read than an unbroken succession of twenty paragraphs. In an annual report—whose narrative usually consists of a series of unrelated items—this breakdown by subheadings is essential.

The subheadings should be large and stand out clearly. This is often achieved by the use of color or tint blocks. Read by themselves, the subheadings should form a rough outline of the report. This effect will be helped if they are written in the form of brief sentences (as in this chapter) rather than mere titles.

"Large type" is not as easy to define as it may seem. To the average person, printers' measurements—points and picas—are a mystery; in addition, the right size of type depends on the type face—the kind of letters used—and the leading—white space between the lines. So there is no ideal size of type for annual reports—or for anything else, for that matter. But the report writer, before leaving all matters of typography and format to the printer, should remember the scientific facts that 12-point type is easier to read than 10-point type and that anything smaller than 10-point type causes eyestrain for the normal reader. Compare:

This is 12-point type.

This is 10-point type.

This is 8-point type.

This is 6-point type.

Although 11- or 12-point type is not unusual in annual reports, short lines are still a rarity. Yet studies have shown that long lines make difficult reading; apparently today's readers are so accustomed to narrow newspaper columns that they find everything else troublesome. Popular magazines have long recognized that fact and use three columns for the normal size of page and two columns for the pocket-size page. Any quick test will show that the average newspaper or magazine column (2 to 2½ inches wide) runs to about six or seven words.

The report of a large railroad company, printed in eight-inch, eighteen-word lines of solid 6-point type, is a good sample of the visual punishment some companies inflict on their stockholders.

STICK TO SHORT SENTENCES

Aside from subject matter and outward appearance, readability is mostly a matter of sentence structure and choice of words. Corporations still have much to learn in these matters. Even companies that are nationally known by their crisp and lively advertising copy, are stuffy, stodgy and old-fashioned in their annual reports.

The average modern newspaper or magazine sentence has sixteen to twenty words. The average company report runs to sixty-one-word sentences like this:

> The Employees' Suggestion Plan, initiated early in 19—, has demonstrated the practical need for and value of established channels through which each individual employee may express his ideas and suggestions affecting any and all phases of the Company's policies, operations, and results, with the full assurance that each such idea or suggestion is appreciated and will be carefully analyzed and considered.

This is the kind of writing that would automatically be blue-penciled by any experienced editor. It is simply an elaborate way of saying: "In 19— we started an Employee Suggestion Plan."

For contrast, let's look at a well written paragraph with an average sentence of eighteen words:

> As already indicated, our fundamental difficulty arises from the Government's control of wages and prices. There are some things that the management of the Company can and will do. We shall make all reasonable efforts to effect economies in operations and to reduce overhead. We shall attempt to expand production and sales of those products that yield a margin of profit. However, no matter how successful our efforts in these directions may be, this Company cannot enjoy stable and profitable business until our prices are commensurate with increased costs.

Ordinarily, the best remedy for overlong, stuffy sentences is to break them up—to make short sentences out of dependent clauses. Here is an example (101 words):

> Believing the physical union of the two businesses to be desirable and in the best interests of the stockholders of each corporation, the Boards of Directors have given further consideration to the matter and have agreed in principle upon a new plan which would contemplate the transfer of the business and substantially all of the assets of the *A* Company to *B* in exchange for shares of common stock of *B* on a basis which would permit the distribution to the *A* Company stockholders of one and one-half shares of *B* common stock for each share of *A* Company common stock.

Rewritten in four sentences averaging fourteen words, this becomes:

> The Boards of Directors of both companies thought a merger desirable and in the best interests of the stockholders. They finally agreed on a new plan. The business and substantially all assets of the *A* Company will be transferred to *B* in exchange for *B* common stock. *A* Company stockholders will get 1½ shares of *B* common stock for each share of *A* Company common stock.

WRITE AS YOU TALK

The wording of company reports is often far removed from ordinary, everyday English. Sometimes the language used is stuffy, old-fashioned "business English"—". . . the company is well positioned . . ." ". . . in furtherance of . . . ," ". . . during the forepart of 1945 . . ." Sometimes it is typical legal jargon—"pursuant to," "the said employees," "hereinafter." Clumsy writing and errors of grammar and usage are quite frequent. An example is the use of *and which* in the following sentence:

> We have already introduced to the market a new type of shaving brush made out of nylon bristles and which has had a ready public acceptance.

Here is another prose gem:

> Once the true facts in this regard are understood much of the current harangue over wages and profits becomes absurd on its face.

Aside from the awkward expressions "true facts" and "absurd on its face," we have here "in this regard"—one of the many compound adverbs, conjunctions and prepositions that are the trademark of pompous, wordy writing. It is a good rule to avoid *all* such expressions that consist of more than one word—"as regards," "with respect to," "in conjunction with," "prior to" and all the rest.

Usually, company reports are particularly poor in the use of transitional expressions. Since the narrative is usually a string of comparatively unrelated facts, most paragraphs start in a fumbling way with some such phrase as:

> The first item of interest is . . .
> As related to sales income during the year . . .
> To discuss general company operations, they can be best summarized . . .

The remedy here is not rewording but simply cutting. If subheadings are properly used, transitional phrases are not needed.

A particularly ticklish point is the use of accounting terms. They should be avoided in the narrative or, if used, should be explained in simple language. Phrases like "tax accruals" or "renegotiation adjustments" are meaningless to the average stockholder. As Mr. Don Herold says, in a booklet for B & O employees:

> A lot of companies get out statements and "reports" every once in a while, and I've always thought most

> of them were pretty dry and hard to understand . . .
>
> I guess the reason most company reports are Greek to me and probably to you is that they are written by accountants, and—while accountants are nice fellows—they talk a language all their own.

Simplifying difficult material is popularly known as "putting it in one-syllable words." There is a basic truth in that expression. Difficult English has too many syllables. Words like "renegotiation adjustment" are hard to read because they are so long; and they are so long because they carry a load of prefixes like *re-* and *ad-* and suffixes like *-ation* and *-ment*. If words without prefixes and suffixes are chosen wherever possible, the number of syllables will naturally decrease and the report will be much easier to read.

In general, the text should have not more than one and a half as many syllables as words. In the above example from Mr. Herold's booklet, there are only one-third more syllables than words. In the following typical passage from a company report there are three-quarters more syllables than words—which is much too heavy for easy reading:

> The decrease in production premium payments was in line with expectations and, as anticipated in last year's annual report was more than offset by diminishing charges for depletion and depreciation. With respect to the smelting of Mexican concentrates for U. S. Government account, the proceeds of the sale of metal recovered therefrom and the cost of smelting have, heretofore, appeared in sales and production costs, respectively. Under the revised procedure, only a net treatment cost or smelting toll is reflected in sales. The reduction in volume of the Insulation Contract Department reflects curtailment of defense plant construction.

Loosened up, this might read:

> We expected that production premium payments would go down. As we said in last year's report, this was more than offset by smaller charges for depletion and depreciation . . . etc.

FIGURES CAN TELL A STORY

In his excellent book *The Art of Useful Writing,* Walter B. Pitkin prides himself on what he calls his "parlor trick." He can take any statistical table and make it into an interesting story. All that is needed is one significant figure from the table and a good explanation of why it is significant.

The moral of this for annual reports is clear: Since most readers are unable to read the financial statements in the back, the key figures must be put into the narrative with a simple explanation of what they mean. But this device should be used sparingly. The fewer figures used, the more they will stand out. And to make them stand out, it is better to tabulate them than to incorporate them in the running text.

Here is an example of an effective two-line tabulation:

> Operating results for 19—, on a consolidated basis, compare with the year before as follows:

	19—	*19—*	*Decrease*
Sales.	$147,025,205	$169,598,971	$22,573,766
Net Income . .	4,046,694	4,707,974	661,280

Even this simple type of presentation can be greatly improved by using round figures and simplified comparisons. A report of the Metropolitan Life Insurance Company contains the following exemplary table:

> For the thirteenth consecutive year the Company's benefit payments to policyholders and beneficiaries exceeded a half billion dollars—$592,000,000 for the year. Here is the break-down:

Type of Payment	Amount	Comparison with 19—
Death claims	$225.1 millions	Up
Matured endowments	149.0 millions	Up
Total and permanent disability benefits	9.5 millions	About same
Surrender values	40.5 millions	Down
Annuity payments	17.8 millions	Up
Accident and health benefits	33.5 millions	Up
Dividends	108.6 millions	Up
Refund for direct payment of weekly premiums	8.0 millions	Up
	$592.0 millions	

A single figure can be made particularly effective if it is dramatized by comparison with a familiar measurement yardstick. A striking example is the following paragraph from another report of the Metropolitan Life Insurance Company:

> In 19— new business came to Metropolitan in record volume. About 2,400,000 people bought new policies. That is more than the population of Iowa.

The following description of earnings, from an actual report, is an example of how *not* to handle statistics.

> The profit for the fiscal year (52 weeks) ending December 30, 19—, was $1,507,027, as compared with $2,713,423 for the preceding fiscal year 19— (53 weeks), and $1,504,813 for the fiscal year 19— (52 weeks), or the equivalent, on 87,883 shares of $8 Cumulative Preferred Stock outstanding, of $17.15 per share for the year 19— (52 weeks) and $30.88 and $17.12 per share for the years 19— (53 weeks) and 19— (52 weeks) respectively. After provision of $8.00 a share for dividends on the Preferred Stock outstanding, the profits for the fiscal years ending December 30, 19— (52 weeks), December 31, 19— (53 weeks) and December 25, 19— (52 weeks), were equivalent to 50.6 cents per share, $1.27 per share and 50.4 cents per share respectively, on the 1,588,697 shares of Common Stock outstanding.

Contrast the preceding paragraph with the clarity gained by presenting the same data in tabular form.

	52 weeks ending Dec. 30, 19—	*53 weeks ending Dec. 31, 19—*	*52 weeks ending Dec. 25, 19—*
Profits	$1,507,027	2,713,423	$1,504,813
Earnings per share			
87,883 shares of $8 Cumulative Preferred	$17.15	$30.88	$17.12
1,588,697 shares of Common	$0.506	$1.27	$0.504

ADD THAT PERSONAL TOUCH

Two of the examples in the preceding paragraph were taken from recent reports of the Metropolitan Life Insurance Company. These reports were a novel departure. One was written by Bruce Barton, writer and advertising executive, the other by Marquis James, Pulitzer-prize winning historian and biographer. Both are outstanding examples of report writing.

Naturally, their high quality is easily explained by the fact that both reports were written by professional writers. But that is not the whole explanation. These reports are easy and interesting to read because they convey the feeling of being written by individual human beings. Their tone is deliberately *not* that of a corporation addressing its stockholders but that of one *person* telling another about some affairs of common interest. They are written in the first person singular—with striking effect. Here is an example from Bruce Barton's report:

> Most interesting to me of all the Company's investments is Parkchester, in New York, the largest single housing project ever undertaken either by private enterprise or Government. So much has been told you in previous annual reports about this wonder city, giving shelter, light, air and sunshine to 12,273 families, that I shall add only a word. If you visit New York at any time, write Parkchester on your list of "musts," along with the Empire State Building and Rockefeller Center, two other miracles, by the way, which were made possible in part by the investment of Metropolitan funds. Words are inadequate to describe Parkchester. Only by seeing it can you understand the size of its service and the promise it holds out to thousands of Americans as a demonstration of what can be provided by private capital in modern living at low cost.

And here is a passage from Marquis James' report:

> Back in the gilded 1920's they would say of a certain stock, "You can put that away and forget it." How many of us did just that—until October 1929. Then the stock recalled itself to our minds—and a sorry sight it was. But in the hardpan 30's, when I "forgot" my Life insurance, it went right on working for me, increasing in value year by year, protecting my family and freeing my mind from one set of perplexities.

Of course, report writing like this is still exceptional. But since the narrative parts of practically all annual reports are signed by the president or the chairman of the board, there is plenty of opportunity for adding that precious first-person-singular touch. And surely there is no reason why all reports should not be written at least in the first person plural. "The Company" sounds formal and distant, "your Company" sounds stilted and contrived, "our Company" sounds natural and right. Witness the lively, conversational tone of the following passage:

> So far in 19— our business has been good. All of our major departments are working at full capacity. Our net results for the first quarter of 19— will be better than they were for the first quarter of last year. There has been a marked pickup in our export business and if our customers abroad could readily obtain American dollars this department of our business would be very much improved.

As long as a report has that personal touch, it cannot be very far wrong in its approach. It will read as if someone familiar with the company told a chance acquaintance about how the company got along last year—which is exactly the way a report *should* read.

LIVENING UP THE ANNUAL REPORT

An appealing modern report has these elements:

1. An attractive appearance.
2. A well written factual narrative.
3. A graphically and pictorially illustrated story.
4. Statistical material that makes the report comprehensive.
5. Understandable financial statements, with comparative figures.

If these elements are skilfully combined, the annual report will reflect what business under private enterprise really is—a vital, moving, lively, progressive force. If the report consists only of conventional financial statements and a dull letter of transmittal with some hastily prepared comments, it will make private enterprise itself appear as a decadent affair. In designing the form of the annual report, executives must not lose sight of its principal function: to present a full, factual review of the year's accomplishments in a manner that will gain and hold the attention of the reader. It is neither necessary nor desirable to devote too much conscious effort to embellishing the report's appearance. Concentrating effort on simplicity, clarity and completeness will, in many cases, automatically give it the functional beauty so pleasing to modern taste.

SELECTING THE SIZE

The cover size of the report is determined to some extent by the characteristics of the story to be told, and this in turn is influenced by such factors as the type of industry, the size of the company, its earnings and the type of stockholders (see page 16). No one size can therefore be recommended as suitable for all companies.

Most illustrated annual reports are about 8½″ × 11″ in size. This dimension is not much larger than the 7¾″ × 10¾″ size of *Time* magazine, which most stockholders indicated as their choice in the *Balasny* survey (see page 223).

More may be done in preparing an attractive layout with this size than with any other; it is particularly suitable for presenting comparative statistics, charts, maps, photographs and other illustrations. With the type set in two columns, the line is a good length for easy reading, and there is ample room to have copy on each page, even if large photographs and diagrams are used. Colored illustrations may be set effectively in the center of facing pages, with copy in both outer columns. In some instances, charts may run over three columns. Single-column cuts, illustrations and tables may be interspersed readily for variety.

This size also lends itself to a magazine format with a three-column set-up. The advantage of this arrangement is that the line of type is short. Also, no two pages are likely to be laid out in exactly the same form. The variety stimulates reader attention and interest.

When the 8½″ × 11″ size is used and the two-column set-up is not desired, the line of type should not exceed 4¾″. Even then, ample leading between lines is desirable. A column of this width allows space for illustrations or notes in the margin as well as across the top or bottom of the pages.

Convenience in filing is one of the most compelling arguments in favor of selecting a size slightly under 8½″ × 11″, say, 8″ × 10½″. Many binders will accommodate a booklet of these dimensions, and so will the usual correspondence-size manila folder used in business files. Individuals with large holdings, institutional investors and financial advisers favor a report that is easy to file.

ODD SIZES AND FORMS

Odd sizes and shapes generally have no particular virtue in an annual report. The booklet is not a catalogue, it does not have to stand out from other companies' reports to get attention.

However, when an odd form is used to achieve a utility feature, it may be justified. A report of the Thatcher Glass Manufacturing Company, Inc., was printed and stitched to open like a calendar. The cover measured 7¾″ × 8″ on the top surface and 7¾″ × 10″ on the bottom. Each of the eight intervening leaves was about one-fourth inch longer than the preceding one. On this one-fourth-inch margin were printed the items discussed on the page. Thus, one could see at a glance the contents of the entire report and could open directly to the information desired.

Binding an 8½″ × 11″ report on the short side makes an odd size, but the wider page obtained may fit the plan of the report—for example, if most of the text is to be accompanied by large photographs, maps and charts.

NUMBER OF PAGES

The report should contain the number of pages necessary to tell the story of the year's accomplishments comprehensively and interestingly. Excessive length, however, should be avoided. Anywhere from twenty to forty pages (including four pages of cover) would appear to be adequate in most cases.

Of the 1946 reports rated as "Modern" in the Financial World's survey (see page 2), 87% had twenty pages or more. Of those given "Honorable Mention," 93% had twelve pages or more. About 68% of those rated as "Unchanged" still had eight pages or less.

A well planned report makes use of both sides of every page of the report. Each page of the report should be numbered for easy reference.

USE OF COLOR

Color unquestionably adds life to the annual report. In charts and graphs, color can bring out comparisons and differences more vividly than black and white. Whether used only in headings and graphs or more generally in photographs and other illustrations, color makes the report more dramatic, attracts attention and gets items read that might otherwise not be. Executives must bear in mind, however, that stockholders may find fault if the report appears elaborate and expensive because of many colors. Even where the cost is justified because the run is large, the cost per copy comparatively small and the distribution helpful to public relations, some criticism may have to be met. Skilful design and execution can use color effectively yet with restraint in order to avoid the impression of undue expense.

Surprinted Ben Day tints and solid colors can give a report printed in two colors the effect of having been printed in three or more colors. Ben Day greys in a report printed in black alone can bring out distinctions in charts and graphs and improve line drawings. This is amply illustrated in the charts reproduced in this book. In many cases Ben Day was substituted for the color used in the original.

Care must be taken not to make the text harder to read because of the color. Black print on red, green, dark blue or violet is hard to read, so is white on silver or on any pastel. Printing small type over a half-tone is also objectionable.

HINTS ON LEGIBILITY, TYPE FACE, LEADING, HEADINGS

The selection of the type face should be left to someone who has had experience in preparing printed matter. The novice is likely to be confused by the number and variety of type faces he sees in the printer's specimen book. To keep the appearance harmonious and in good form, the number of type faces should be kept to three. Variety can be obtained with such devices as hand-lettered script, reverse plates and illustrations.

For the sake of appearance and legibility, it is always advisable to insert space between the lines. The printer does this by inserting leads, which are thin strips of metal separating the lines of type. The amount of lead that should be used depends upon a number of factors, such as the type face in which the copy is to be set, the size of type to be used and the length of the line. In general, small faces need less lead than large ones, light faces need less lead than heavy ones, and short lines need less lead than long ones.

Most annual reports that are hard to read have failed to allow sufficient leading, have used too long a line for the size of type or have employed too small a type face. Text should never be printed in less than 10-point type for lines running from two to three inches in width; 12-point type is preferable for lines of from three to seven inches in width.

For further hints on how to make the annual report readable, see Chapter 15, especially page 195. See pages 289 et seq. for reproductions of pages from some annual reports that meet the highest standards of legibility.

PRINTING

Most annual reports are produced by letterpress process; some use the offset process (lithography). The nature of the illustrations, the amount of type to be set and the size of the run are some of the factors to be considered in selecting the printing process.

BINDING

Practically all annual reports are saddle-wire stitched through the middle of the folded sheets and the cover, the book lying open. In rare instances, when the report is bulky, it must be side-wire stitched. In this case, the wires are inserted vertically through the inner margin of every leaf, the book lying closed, and the cover is then pasted on.

A few reports come in plastic or wire spiral bindings. Since this feature adds to the cost and takes more production time than wire stitching, a company should have some good reason for using it.

ENVELOPES

The envelope for the report is usually simple. Occasionally it makes use of color, if the report does, to attract attention. It is good practice to show on the envelope that it contains the annual report.

A few companies mail their annual reports without envelopes, utilizing the same mailing privilege as magazines. This method requires extensive zoning and tying-up of bundles of reports for each city, town and village.

ESSENTIALS OF A COVER

The minimum essentials of any annual-report cover are:

1. Paper stock that gives the report body. The cover should be heavier than the paper used in the report proper. For instance, a 70- or 80-lb coated stock would have a 100-lb coated cover-stock.
2. The name of the company.
3. The title. This is usually "Annual Report." In some instances it is called a "Year Book" or "Annual Report and Year Book."
4. The calendar or fiscal year covered by the report. Some companies number their reports or otherwise indicate the age of the business.

COVER IDEAS

The following ideas have resulted in effective cover designs:

1. Photograph related to the company's product or operations. If the picture is not perfectly obvious, it is well to explain it on the inside of the cover, the back, the first page or other suitable place. The International Harvester Company reproduced its colored cover in miniature and without color on the first page of the report with a brief statement of where the picture was taken and what products were portrayed.
2. Maps (see page 203).
3. A sample of the company's product. Gaylord Container Corporation had a corrugated cover; National Container Corporation, a boxboard cover; National Vulcanized Fibre Company, a fibre cover; United Wallpaper, Inc., a washable wallpaper cover. Century Ribbon Mills had a gold seal with two bits of blue ribbon extending from under it in diploma fashion.
4. Simulation of the company's product. The cover of a report by A. Hollander & Son, Inc., was a photograph of black persian lamb; the cover of General Shoe Corporation's report simulated the grain of leather.
5. An inspirational message. General Foods carried the following message on one of its report covers: "There is no lasting means of getting more from producing less. This country is a gigantic enterprise with 140 million partners. Only as partners, working smoothly together, can we continuously produce what we want, and raise our levels of living to new heights." For another example see page 24.
6. Embossed reproduction of building, trademark, seal or other emblem.
7. Background of brief statements of fact, names of products, trade-marks, slogans or other telegraphic items. The words usually appear in white on a light-colored cover.
8. A die-cut that permits a picture or other message on the first page of the report to show through.
9. For special illustrations, panoramas, maps or extensive statistical summaries, the front or back cover, or both, can make use of a "gatefold" spread. In such cases, the cover-stock is of a size to permit a fold-out from the top, bottom or outer edges of the cover.

Covers can be plasticized or varnished to give the effect of heaviness. Varnishing also brings out color and protects the report from dust, fingerprints and the like.

USING THE INSIDES OF COVERS

The annual report can be regarded as a book and treated like one by those who prepare it. In that case, it will have no textual matter on the insides of the covers and might even have a title page to ease the reader into the text.

On the other hand, the insides of the cover may be used for material that does not necessarily rush the reader into the text. Insides of front and back covers have frequently been used for the following types of material:

- Organization chart (see page 21).
- Directory page (see page 21).
- Photographs (see list opposite).
- Maps (see ideas at page 203).
- Sketch of proposed plant construction.
- Products (see page 166).
- Photographs of directors and officers.
- Reproduction of advertisements.
- Highlights of the year.
- Brief history of the company.
- Memorials.
- Notice of forthcoming annual meeting and request for proxies.
- Group of charts.
- Samples of products. For example, a paper company inserted in a pocket in the report samples of paper it produced. A textile company attached a swatch of material to the inside back cover.

ILLUSTRATIONS

Illustrations in annual reports are of the following general types, each of which is discussed below:

1. Photographs.
2. Maps.
3. Charts, graphs and pictorial presentations of statistics.
4. Sketches, drawings and cartoons.

The illustrations, if used skilfully, will give variety and freshness to each page of the report, make factual material more interesting and easier to read and help get the report read. A two-page illustrated spread in the center of the report may bring out the most important developments of the year. Fig. 8 on page 52 was used in this way.

The commonplace in illustrations should be avoided. With overuse, an illustration loses its flavor. A remark in *Barrons,* March 24, 1947, throws out a warning against the tendency to stylize illustrations:

> Commonplace now are the little figures which coast down hill on sales charts and then strive manfully upward and onward when sales trends improve. Bewhiskered Uncle Sam taking his share of the product of the toil and sweat of management and labor is a stock figure now. So, too, is the square-jawed, overalled laborer and the keen-eyed, alert representative of the business executive. . . .

PHOTOGRAPHS

Companies that contemplate using photographs in their annual reports should collect pictures during the entire year. A selection may be made when the report is compiled. This practice should be followed whether or not an outside agency is used.

An alphabetical list of subjects of pictures that have been used effectively in annual reports is given below.

- Additions to plants.
- "Before and after" pictures of any phase of the company's operations.
- Bird's-eye view of properties.
- Counter displays.
- Community pictures.
- Demonstration equipment.
- Directors, group or individual.
- Early photographs of plant and methods of operation contrasted with modern ones.
- Employees, group or individual.
- Employee's day at work. For example, a pictorial story of a typical skilled miner, showing him on his way to the mine, getting his lamp, discussing the day's program with his foreman, waiting for the man-trip, riding in safety man-trip car, testing for gas, and so forth.
- Employee social affairs and recreational activities.
- Employee training.
- Employee welfare scenes.
- Industries that benefited by company's operation.
- Installations.
- Interior of factory illustrating process of manufacturing.

Interior views of stores.
Laboratory pictures.
Machinery for various operations in manufacturing process.
Magazines in which company advertises.
Management personnel.
Materials used in production.
Models of company's product.
Office building owned by company.
Office scenes.
Products in use.
Reprints of national magazine advertisements.
Reprints of publicity.
Research and testing equipment.
Safety education.
Salesmen's meetings.
Shots typifying production, transportation, marketing, finance, research.
Store fronts.
Stores through which product is sold.
Stockholders at home or at work.

MAPS

Certain types of information are effectively presented through full-page or double-spread maps. By employing color, perspective and legends with which to identify the information disclosed, decorative results are obtained incidentally. In most cases, maps have added to the attractiveness of the report. The only time they fail to enhance the report is when they attempt to show too much. Bunching of names and symbols—unavoidable in some cases—will destroy the appearance and usefulness of a map.

Here are some of the uses that have been made of maps and an explanation of how the ideas were carried out.

1. *Location of plants, warehouses, branch offices, distributing points, chains of stores and service facilities.* Continental Can Company, Inc., had a white map of the United States outlined against a blue Ben Day background on the inside back cover of an annual report. The map showed locations of plants and service facilities. Eight types of locations and services were identified by symbols printed in blue, the color used on the cover. For example, the legend for manufacturing plants was a silhouette tower with a curl of smoke; for research laboratories, a retort.

2. *Location of subsidiaries and plants.* On an outline map of the United States reproduced on the last page of an annual report of Schenley Distillers Corporation, stars marked the location of distilling and blending plants. Lines led out from the stars to circles in the free space around the map. In the circles were the names of the subsidiary companies operating various distilling and blending plants. Over each company name was silhouetted an outline of the plant. Other subsidiary companies were listed below the map.

Where the plants are not numerous, they may be silhouetted in circles right on the map, as was done in a map used by Union Bag & Paper Corporation. In this case, the locations of mills and factories, branch sales offices and warehouses were listed below the map.

3. *Location of stores.* The center spread of one of J. C. Penney Company's annual reports consisted of a map of the United States on which white figures in the center of each state indicated the number of J. C. Penney stores located there. The following legend identified the extent of the number of stores in each state.

☐ **1-10 STORES**
░ **11-30 STORES**
▒ **31-50 STORES**
■ **OVER 50 STORES**

4. *Markets and customers.* A sectional map of the area served by Tilo Roofing Company, Inc., was printed on the inside back cover of an annual report. It was entitled "Here is our Market." The explanation below this title read: "The homes and business properties in the area covered by this map constitute the potential market for TILO roofs and sidings. To properly service the entire area, TILO maintains Company-owned and Company-operated branch offices. The location of each branch is indicated on this map."

The center spread of one of Burrough's annual reports made use of world maps of both hemispheres. The spread was entitled "The World is Burrough's Market." Lines leading from a photograph of the main plant to starred spots on the two maps showed the near and remote places of the world to which the company's products go. Other photographs showed plants and typical offices. In this illustration, appropriate information was given of the number of company branches and service centers in the United States and Canada and the number of company and dealer sales and service centers in foreign countries.

5. *Statistical data on payments, employees, stockholders.* To show how The Borden Company and its subsidiaries are an integral part of two nations, a pictorial map in one of its annual reports gave a bird's-eye view of Borden's operations in the United States and Canada. Statistics showing what Borden paid to farmers and workers and for taxes, the number of employees and the number of stockholders were posted in billboard style in the areas to which they applied. Using the same statistical arrangement, a larger billboard was placed in the lower righthand corner of the page, showing totals of the figures presented for the various countries in which this company does business.

National Dairy Products used a map to show the distribution of stockholders by states.

6. *Territory and system maps.* Public utilities, oil companies, railroads and bus companies have made frequent use of territory and system maps. In one such map used by The Detroit Edison Company, a legend of lines and symbols indicated 120,000-volt tower lines, transmission lines, steam power plants, hydro-power plants, stepdown stations and substations.

A map used by the United Carbon Company showed the oil and gas fields in which the company is interested and the pipe lines to which it delivers gas.

An attractive map showing the transportation of oil, used by the Union Oil Company of California, is reproduced at page 205.

7. *Location of sources of supplies.* National Sugar Refining Company used a center-spread, colored map of the world to show where its supply of sugar comes from. Various colors were used to show where production was at or below the 1935-39 average, where above the average, and which areas were nonproducing. The principal areas supplying the U. S. were designated by a symbol.

8. *Location of natural resources owned.* A company whose operations include the taking of raw materials from the earth or its surface can use maps advantageously to locate ore beds, gas or oil fields, or timberlands. Maps can show the extent of these properties and their nearness to processing plants or consuming markets. A center-spread in a report of the Southern Natural Gas Company illustrates this type of map.

CHARTS, GRAPHS AND PICTORIAL PRESENTATIONS OF STATISTICS

Charts and graphs help to make figures interesting and understandable, emphasize important points and enhance the appearance of the report. Charts and graphs must be kept exceedingly simple. Any attempt to show too many factors in one chart or to use highly technical graphic forms will defeat the purpose of the illustration—to tell a story at a glance.

Most of the graphics prepared for annual reports are of the following types:

1. Line charts.
2. Bar-charts.
3. A combination of lines and bars.
4. Sector or pie charts.
5. Other graphic presentations.

A brief discussion of these types of charts is given in the following pages. The discussion is not intended as a manual of the techniques of preparing charts and graphs.[1] Its aim is to point out certain basic rules of graphic presentation that are the result of scientific study by trained statisticians. Unfortunately, many beautifully prepared charts do not follow these rules. Sometimes only lack of conformity results, but in other cases the story told by the charts is misleading. Better begin with the scientific rules and let the embellishments follow.

Some of the charts presented in this book do not observe all the rules given in the following pages. Where this is so, the breach has been overlooked because the chart demonstrates some particular point.

SUBJECTS TREATED IN CHARTS AND GRAPHS

A wide range of subjects is treated in chart or graph form. In this book, illustrations of charts and graphs, as well as checklists of ideas for graphic presentations, are given for the following broad subjects:

1. Results of the year at a glance—a quick picture of progress (see Chapter 4).
2. Production (see Chapter 5).
3. Volume of business, sales, prices (see Chapter 6).

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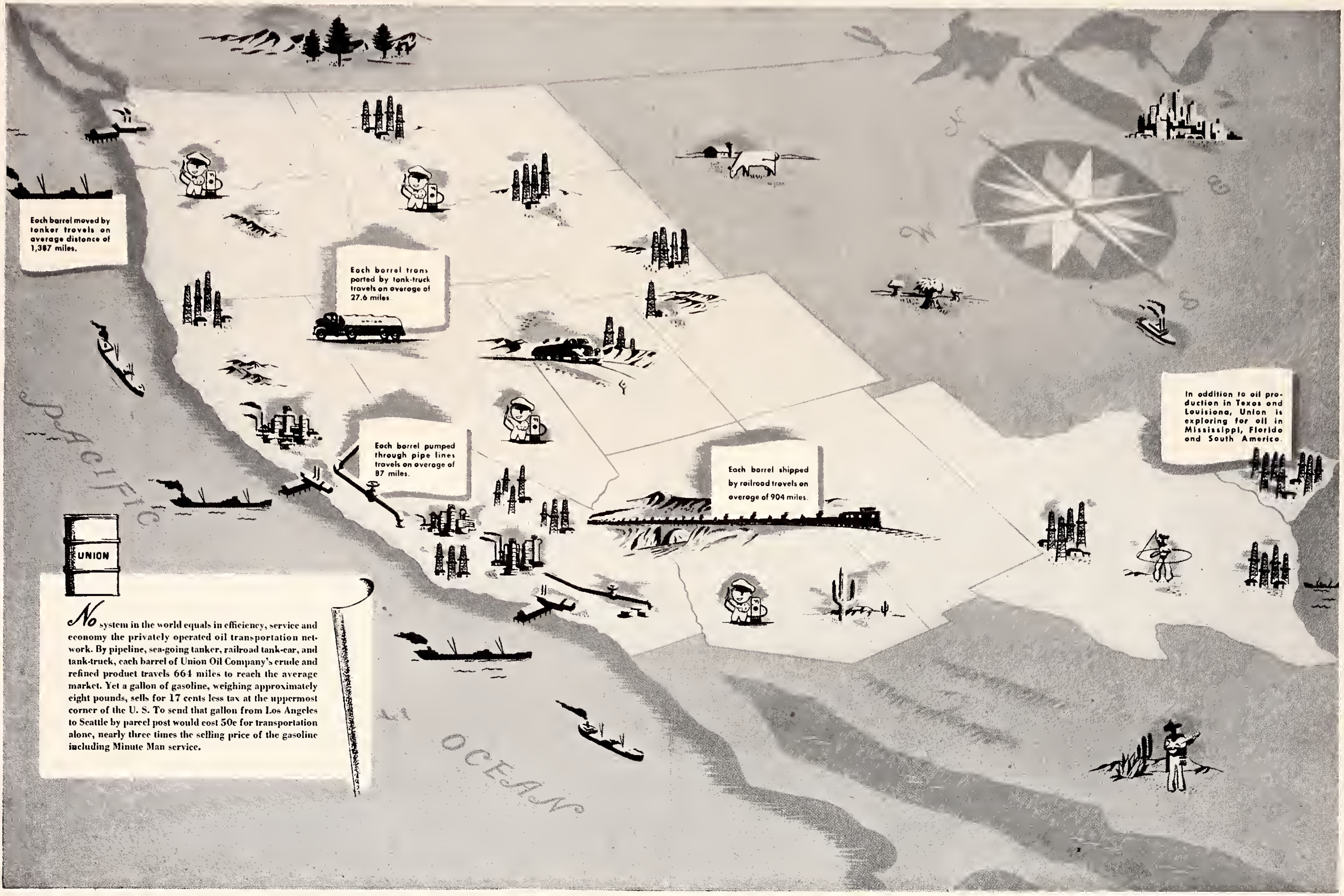
[1] For a complete treatment of the techniques of preparing charts and graphs, see *Applied General Statistics* by Croxton and Cowden, published by Prentice-Hall, Inc., New York City.



Each barrel moved by tanker travels on average distance of 1,387 miles.

Each barrel transported by tank-truck travels on average of 27.6 miles.

Each barrel pumped through pipe lines travels on average of 87 miles.

Each barrel shipped by railroad travels on average of 904 miles.

In addition to oil production in Texas and Louisiana, Union is exploring for oil in Mississippi, Florida and South America.

No system in the world equals in efficiency, service and economy the privately operated oil transportation network. By pipeline, sea-going tanker, railroad tank-car, and tank-truck, each barrel of Union Oil Company's crude and refined product travels 664 miles to reach the average market. Yet a gallon of gasoline, weighing approximately eight pounds, sells for 17 cents less tax at the uppermost corner of the U. S. To send that gallon from Los Angeles to Seattle by parcel post would cost 50c for transportation alone, nearly three times the selling price of the gasoline including Minute Man service.

Courtesy, Union Oil Company of California

Fig. 151

4. The cost of doing business—"Where the Sales Dollar Went" (see Chapter 7).
5. Earnings and dividends (see Chapter 8).
6. Financial condition: assets, liabilities, stockholders' equity and other balance sheet trends (see Chapter 9).
7. Employment, wages and employee relations (see Chapter 10).
8. Taxes (see Chapter 11).
9. Stockholders (see Chapter 12).
10. Research (see Chapter 13).

LINE CHARTS

This type of chart shows trends and is a desirable form for showing data covering a number of years. The horizontal scale, which shows the time element, runs from left to right with the earliest year at the extreme left. The vertical scale, which shows the dollars, quantities and percentages, or index numbers, units or other charted data, runs from bottom to top.

The scale of all figures on the vertical axis should begin with zero. If this is not done, the usual impression received is not correct. There are only two exceptions to the rule that zero should be indicated:
(1) Where the base line is an index of 100, the zero need not and often should not be shown, (2) if the chart is semi-logarithmic, zero cannot be shown. If the range of dollars or figures used in the chart begins some distance above the zero, the scale should be broken to indicate the omitted figures. Fig. 34, page 68, illustrates a broken scale.

When trends for a number of items are shown on one chart—for example, the total figures at the year-end for each group of assets reflected in the balance sheet, or the composition of capital structure—the area between the lines may be filled in with dots, cross-hatching, Ben Day or other markings to separate the groups and bring out the comparisons. In reports making use of color, the comparisons may be brought out by filling the areas with different colors, shades or markings over the colors. For example, see Fig. 89, page 127.

ARITHMETIC AND SEMI-LOGARITHMIC LINE CHARTS

Line charts used in annual reports are generally drawn to arithmetic scales. This means that a given distance on any axis, vertical or horizontal, always represents the same *amount* of change. Thus, on the year scale, the years are equi-distant from one another; on the dollar, unit or per-cent scale, the jumps are regular and equi-distant from one another.

In rare instances, annual reports have presented "semi-logarithmic" [2] or "rate of change" charts. Such charts are drawn on semi-logarithmic paper, sometimes referred to as "ratio paper." On this paper, equal vertical distances represent equal ratios or proportions. Therefore, when a year-to-year curve is drawn on such paper, equal slopes represent equal rates of change. This type of chart is very useful in clarifying and comparing *rates* of change. The arithmetic chart shows *amounts* of change. The semi-logarithmic chart shows: (1) A constant rate of change as a straight line, (2) the rate of increase or decrease by the slope of the line, (3) the comparison of rates or ratios between two or more lines by means of parallelism, or the lack of it, between these lines.[3]

Unlike the arithmetic chart, a semi-logarithmic chart has no zero base-line and does not permit interpretation of curves in terms of distance above a base-line. Some instances where the semi-logarithmic chart is suitable for annual reports are pointed out at pages 208 and 209.

In the opinion of some statisticians, annual reports should make more use of semi-logarithmic charts. Undoubtedly, however, an untrained reader will be puzzled by the variations in the distances on the scale. The arithmetic scale presents no such deterrent to quick acceptance of what the chart shows.

If a semi-logarithmic chart *is* presented, the heading or explanation, or both, should make it perfectly clear that ratios or proportions are shown, rather than amounts. Otherwise, the reader who is used to arithmetic charts will assume the increases or decreases are absolute rather than proportionate.

BAR-CHARTS

Bar-charts are particularly suitable for showing comparative sizes of similar data over a period of years, trends, comparisons of two related items and breakdowns of a total. Fig. 142, page 165, illustrates three of these purposes.

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[2] The term "semi-logarithmic" is used because one scale is logarithmic and the other is arithmetic.

[3] *Applied General Statistics* by Croxton and Cowden, p. 109, published by Prentice-Hall, Inc., New York.

The bars may be:

1. *Horizontal.* The horizontal bar-chart is usually used for a categorical (nonchronological) series; that is, time is not one of the factors. The items compared are indicated at the left, or both left and right. The dollar amounts or other units charted are indicated at the bottom or top in a horizontal position, if vertical lines are drawn to mark off the sums at regular intervals. If vertical lines are not used, the pertinent amount can be entered in the bar or shown at the end of the bar. An example of a nonchronological bar-chart is given in Fig. 55, page 86. The horizontal axis always begins with zero.

2. *Vertical.* The vertical bar-chart is generally used to make chronological comparisons. In the vertical bar-chart, the dates run from left to right at the bottom. The first vertical bar is for the earliest year, the last for the latest. The amounts charted are indicated on a vertical scale at the left, or both left and right, beginning with zero.

3. *100% or component bars.* In this type of bar-chart, a bar represents 100%, and the divisions of the bar indicate percentages of the whole. The vertical bar is more suitable for showing components than the horizontal bar.

Where a vertical bar-chart has each bar broken down into its components, the trend for each of the divisions can be shown by connecting each year at the division points. For example, see Fig. 57, page 88.

SECTOR OR PIE CHARTS

Sector charts, also called pie charts and divided circles, present data in the form of a circle, the entire circumference representing 100% and the various sectors representing percentages or portions of the whole. Pie charts are suitable principally for visualizing a breakdown of data for one year only, generally the year for which the report is made. In almost all cases, the same information can be shown in 100% bar-charts. The pie chart, however, may be more attractively presented and dressed up.[4]

One popular kind of pie chart shows where the report-year dollar of revenue came from and how it was expended. A number of examples are given in Chapter 7. See also the comments at page 71, relating to charts showing where the sales dollar went.

A pie chart is not suitable for comparing breakdowns of one year with another or among a series of years. The reason is obvious: A number of pie charts would have to be drawn to bring out the comparisons. If the diameter is kept constant, there is no visual presentation of the change in the amount represented by the circle in each of the years. If the diameter is varied to reflect the change, the extent of the increase or decrease is not obvious to the reader, because it covers a large surface. Bar-charts, therefore, should be used in comparing breakdowns of totals for a period of years.

Mechanical considerations often make it difficult to set type within the irregularly cut segments of a pie chart, particularly when they are small. An arrow may be drawn from a label outside the pie to the appropriate segment, but this practice detracts from the very simplicity that the chart attempts to achieve.

ADDING INTEREST WITH SYMBOLS

Charts can be made more interesting and decorative by using small drawings or symbols to represent units charted. Charts employing this device are called pictographs. The symbols should indicate the subject matter. For example, instead of a solid black bar to represent dollars, a stack of coins may be pictured. In a graph showing the number of employees, miniature figures of people, each representing a number of employees, may be used instead of an unimaginative black line. Where the symbols are of units that logically stand side by side—for example, people, automobiles, ships, and the like—horizontal bars are used even where a time series is shown. See Fig. 111 at page 146. Many illustrations of symbols are given in the charts reproduced in Chapters 10 and 11. As previously indicated, however, the commonplace should be avoided.

If symbols, each representing a certain number, are used, the reader should not be left to determine the total by counting the number of symbols and multiplying. The chart should indicate in some way what the total is, unless the amount is obvious.

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[4] For a demonstration that a bar-chart does not tell a more precise at-a-glance story than does a pie diagram, see the article in the *Journal of American Statistical Association,* Dec. 1927, pp. 473-482, by Roy E. Stryker and Frederick E. Croxton.

ILLUSTRATION-CHART COMBINATIONS

An effective way of animating charts and graphs is to combine them with photographs. The chart is superimposed on faint photographic backgrounds related to the item charted. There is danger, however, that if the chart contains printed matter, the print will be hard to read. Stockholders have complained about this weakness of superimposing information on photographs.

CHOOSING THE TYPE OF CHART

In choosing the type of chart to present facts graphically, these factors should be considered:

1. What must be brought out? One type of chart may be better adapted for a particular purpose than another. For example, in portraying the reduction of a funded debt, a curve may be less graphic than a bar-chart.

2. Will the proposed chart be harmonious with others in the report? A great variety of charts without a basic harmony among them will give the same disturbing effect as bad color-combinations. Basic harmony in charts may be achieved by uniformity of lettering, thickness of lines, color and artistic treatment.

Where time is one of the elements of the graph, a bar-chart or line diagram can be used. Ordinarily, the following rules will help to determine which type to select.

1. If specific years are compared, use the vertical bar-chart, since each year stands out individually. This type of chart is not suitable, however, if a long series of years is to be shown. The line diagram is preferable in such a case.

2. If the general change over a period of time is to be emphasized, rather than comparison of specific units of time, use a line diagram, because it shows clearly the amount of change as well as the trend. The slope of the line indicates the degree of change from period to period.

CHARTING COMPARISONS OF TRENDS

In the discussion of comparative financial statements at page 34, the point was made that adjustments and explanations are often necessary to make the figures truly comparable. In the case of charts and graphs, unless the figures can be adjusted to eliminate the differences that make the comparison untrue, the data cannot be graphically portrayed.

COMPARISONS OF UNLIKE UNITS

Two related but unlike items calling for different scales of figures, can be compared on one line chart. The left column of figures identifies one set of facts, and the right column the other. The base for both columns of figures should be zero.

Before using such a two-scale chart with an arithmetic vertical scale, this question should be asked: What must be the jumps in one scale of figures as related to the other to bring out a fair comparison? For example, suppose you are comparing sales revenue and tonnage shipped. If 1000 tons of shipments normally produce about $5000 of sales revenue, a 1:5 relationship in the two scales will not distort the comparison. On the other hand, if the gradations in the dollars scale rise twice as rapidly as the gradations in the tonnage scale, sales revenue will appear to rise much more rapidly than shipments, and the chart will give an erroneous impression.

The semi-logarithmic chart discussed at page 206 is useful in comparing the rate of change between two sets of figures that represent different but related items. If a department store wants to compare the rate of change in the amount of sales over a period of years with the change in the number of stores over the same period of years, a semi-logarithmic chart will serve where the arithmetic will not, for it would not be logical to put two such different vertical scales on an arithmetic chart.

In reports that use color, two different colors can be used to identify the two sets of data. For example, in Fig. 8, page 52, American Rolling Mill Company compares the quantity of production with net sales over a period of years. The left column of figures shows production in tons. The line was blue and so was the column of figures. The scale at the right is net sales in dollars. The line was white and the column of figures was black on white. Color, in this instance, helped to simplify the chart.

Two related items can also be compared on a combination, vertical bar-and-line chart. The left column of figures identifies one set of facts and the right column another. Here, too, a proper relationship must be maintained between the two sets of figures to prevent distortion. Fig. 84, page 126, illustrating a comparison of current assets and net sales of Sylvania Electric Products Inc., shows a combination bar-and-line chart.

CHARTING COMPARISONS BY PERCENTAGES

In comparing trends of different but related items, the clearest results are obtained by establishing a base year for all items and letting the base year represent an index of 100 or 100%. This avoids the use of more than one scale. For all years other than the base year, the index or per cent is calculated by dividing the amount for the particular year by the amount that represents 100 or 100%. Thus, all figures are reduced to a comparable basis and all lines on the chart are related to the common, base line. Each trend may be portrayed by a different type of line, if color is not used, and if it is, by a differently colored line. For example, suppose earnings and taxes are to be charted for a series of years, beginning with 1935. The amount of earnings for 1935 will represent 100% and the amount of taxes for that year will also represent 100%. Each year's total earnings and taxes will be a percentage of their respective 1935 figures. Numerous illustrations are given in Chapter 6.

CHARTING COMPARISONS WITH INDEX NUMBERS

Wherever company figures are compared with data for which an official or other accepted index is used, it is necessary to make a company index that is comparable with the official one. For example, suppose the trend of the company's sales is to be compared with the trend of industrial production in the nation as shown by the Federal Reserve Board Index. In the FRB index, the 1935-1939 average equals 100. To make its chart, the company must construct its own sales index so that its average sales figures of the years 1935-1939 also equal 100.

CHARTING COMPARISONS ON A PER UNIT BASIS

The significance of certain statistical data may be brought out better if the data are reduced to a unit basis rather than presented as total sums. Department stores frequently reduce classes of expenditure to a per-store basis and depict trends in that way. Similarly, certain items are often reduced to a per-share basis for purposes of showing comparisons. F. W. Woolworth Co. once used a chart which showed average taxes per store and average taxes per share in each of a selected group of years.

COMPARING WITH THE INDUSTRY AND THE NATION

Comparisons of a company's performance with the situation in the industry as a whole, with related industries, with the country as a whole or with other pertinent or relative data may be brought out clearly in a chart. Such comparisons are necessarily limited to data for which the comparable statistics are available. As previously indicated, it is necessary to make the company's index number correspond with the outside index that is being used. The semi-logarithmic chart is useful in this type of comparison.

Here are some company figures that have been compared in chart form with industry or nationwide indexes:

1. *Production.* Caterpillar Tractor Co. presented a chart comparing Caterpillar man-hours worked with the Federal Reserve Board Index of all industrial production. See Fig. 9, page 53.

Philip Morris & Co., Ltd., Inc., compared its own index of production of cigarettes with that for the industry. See Fig. 6, page 51.

2. *Sales.* Monsanto Chemical Co. compared its sales index (adjusted for seasonal variation) with the index of business activity of the Guaranty Trust Company.

Caterpillar Tractor Co. compared its sales index with the Federal Reserve Board Index of industrial production.

Link-Belt Co. compared the Link-Belt sales index with the Federal Reserve Board Index of durable-goods production. See Fig. 21, page 62.

Bridgeport Brass Co. compared its index of yearly shipments of mill products with a comparable index of brass-industry shipments, steel-ingot production and the Federal Reserve Board Index of durable-goods production. See Fig. 31, page 67.

Federated Department Stores, Inc., showed the percentage of sales of their stores to total department-store sales in the same cities. The chart was prepared from census and Federal Reserve Bank figures.

3. *Prices.* Corning Glass Works compared the price index of all its products with the index of all manufactured goods in the United States. See Fig. 38, page 69.

Inland Steel Co. showed how steel held the price line during and after the war years, by comparing steel prices, wholesale prices and retail prices. For retail prices, it used the U. S. Department of Commerce statistics, for wholesale and steel prices, the U. S. Bureau of Labor Statistics figures. See Fig. 41, page 70.

Hunt Foods, Inc. compared cost of selected raw fruits and vegetables with retail prices. The data were furnished by the U. S. Department of Labor and California Coöperative Crop Service. See Fig. 45, page 77.

Imperial Oil Ltd. compared gasoline wholesale-price index (without Federal and provincial gasoline taxes) with the general wholesale-price index. See Fig. 37, page 69.

4. *Utility cost and cost of living.* Columbia Gas & Electric Corporation compared the cost of residential gas with the cost of living, using the Bureau of Labor Statistics Consumer Price Index. See Fig. 39, page 69.

Georgia Power Company compared residential KWH usage and price with national averages. See Fig. 32, page 67.

5. *Employee earnings.* General Motors Corporation compared the hourly rate of earnings of its employees with the average hourly earnings for all manufacture, using the index of the Bureau of Labor Statistics. See Fig. 109, page 145.

Inland Steel Co. and Sharp & Dohme, Inc., compared earnings of their workers with the cost of living. They used the U. S. Department of Labor Statistics Cost of Living Index. See Figs. 120 and 121, page 151.

Seattle Gas Co. compared employee earnings, company earnings and the cost of living in Seattle.

Keystone Steel & Wire Co. compared average hourly wages paid by it with the average paid by the steel industry. Industry figures were supplied by the American Iron and Steel Institute.

6. *Company earnings.* Vick Chemical Co. compared its earnings with a theoretical share composed from the Dow-Jones Industrial [stock] average. See Fig. 66, page 98.

For a select list of current indexes, see *Practical Business Statistics,* p. 397, by Croxton and Cowden, published by Prentice-Hall, Inc., New York. *Government Statistics for Business Use,* edited by Philip M. Hauser of the Department of Commerce and William R. Leonard of the Bureau of the Budget, published by John Wiley & Sons, New York, 1946, may be helpful in locating source data for the type of comparisons discussed in this paragraph.

WHY SOME CHARTS FAIL

Many of the line and bar-charts that have appeared in annual reports have failed in their purpose of giving at-a-glance stories or making facts clearer. The usual reasons for failure are:

1. *Not legible.* A chart may lose clarity if it is superimposed on a dark photograph or presented in colors that obscure the facts. For example, a yellow bar-chart on a white background, with numbers indicated in white, proved practically useless in one annual report.

2. *Too complicated.* Some outstandingly good charts, from the standpoint of exactness and accuracy, have defied readers to do more than glance at them because they showed too many factors. For example, a line chart of a well-known industrial company compared six indexes relating to prices.

3. *Too little variation.* If the data are fairly constant, they do not lend themselves to line or bar-chart treatment. In some instances, the absence of variation is the point made by the chart, but here the constant line is usually compared with another, fluctuating one.

4. *Figures not well indicated.* The figure guides on line and bar-charts should be readily understandable as well as large enough to be read. Their explanation should preferably be given immediately over the vertical scale, or immediately below a horizontal scale, to show what is represented—millions of dollars, number of units, per cents and the like. Of course, if the figure is a simple number, such as number of employees or of stockholders, the title of the chart may be sufficient for clarity.

5. *Labeling incomplete.* When two or more series are plotted on the same chart, what the area between the two plotted lines represents, if anything, should be clearly indicated by captions. Assume that on a particular chart one line shows the trend of net income over ten years and another

line shows income from all sources, both in millions of dollars; the area between the two lines should be labeled "Total Outgo," or the chart will be confusing.

6. *Appearance uninteresting.* An otherwise satisfactory chart may appear too bleak or too static to invite attention. This difficulty may be overcome by adding symbols or other illustrations to humanize the chart or by using other accepted techniques of display. A provocative, informative headline will almost always catch the eye and interest the mind.

7. *Type too small.* Sometimes a company will use a wall chart or other large-sized diagram, but in bringing it down to a size suitable for the report, will reduce the markings so far that they become illegible.

AIDING THE READER TO INTERPRET THE CHARTS

Even a simple chart may be made clearer by a brief explanation of how it should be read. Several years ago, Eastman Kodak Company used some line charts to show the trend of weekly earnings of factory employees as compared with the trend of the cost of living in Rochester and to show other wage data. The chart was based upon index numbers. The report included the following brief paragraph to help the reader interpret the charts:

> The amounts are expressed by index numbers, with the year 1915 equal to 100, thus permitting a clearer comparison between the different curves. The distance of any given point above or below the horizontal line representing 100 indicates the percentage of fluctuation from the level of 1915, the earliest year for which comparable information is available.

It may be assumed that a reader who is not trained in statement analysis and graphs and statistics, is going to accept a chart at its face value. It is therefore necessary for management to be especially careful to present an explanation if the chart requires interpretation. For example, certain increases or decreases cannot be interpreted as desirable or undesirable until their cause is known. An increase in inventories may be advantageous if stocks have previously been inadequate or if heavy purchases have been made against a rising market or in anticipation of a period when goods will not be available. On the other hand, the increase in inventories may have resulted from unwise purchasing policies or from a decline in sales. The text treatment of inventories should point out the significance of inventory changes.

Similarly, the text or the title of the chart should clarify any terms that the untrained reader does not readily understand. A chart of net worth will mean nothing to most readers unless the text or the chart indicates what "net worth" consists of as used in the chart.

SUBJECTS TREATED WITH MISCELLANEOUS PICTORIAL EFFECTS

Sketches, drawings, charts and cartoons have been employed where photographs would not serve, and for variety where photographs might have served. They have been used effectively for the following purposes:

1. To show the organization of the company (see page 21).
2. To sketch contemplated construction.
3. To show structural diagram of a product.
4. To explain the flow of a manufacturing process.
5. To tell the evolution of a product (see page 170).
6. To show who uses the company's product.
7. To illustrate media used in advertising (see pages 172 and 174).
8. To simplify financial statements (see pages 122 and 123).

STATISTICAL MATERIAL IN ANNUAL REPORTS

A great variety of statistical material, in addition to financial statements, simplified financial statements and schedules in support of items in such statements, is presented in annual reports. Statistics may be included in a special section of the report or they may be presented in the body of the narrative to amplify some comment in the text. See page 197 for pointers on using statistics in the narrative.

Tables, like charts and graphs, give the reader an opportunity to see growth, changes, trends and relationships. A representative collection of tabular matter suitable for annual reports to stockholders is presented as a part of each of the chapters dealing with ideas for reporting on specific subjects.

The skeleton tables included in this book will be found especially helpful to accounting and statistical departments that are asked to suggest tables and furnish statistical data.

How many years should be included in any table is optional with the company. A safe rule to follow is to give as many years as are necessary to draw a correct conclusion from the comparative figures. So-called "statistics of progress" (see page 116) should be given for at least five years. Since, for some time to come, five-year comparisons will take in the war years, it may be advisable in some cases to give longer records or to include an average for the five war years 1942-1946 and an average for the five pre-war years 1937-1941. Ten-year comparisons are wanted by many analysts, as shown in the survey at page 226, and are frequently given. The U. S. Steel Corporation carries its "Operating Story" and its "Financial Story," which are statistics of progress, back to the beginning of the company in 1902. Just as charts have been presented in which company figures are compared with industry and nation-wide figures, so tables of the same data may be presented. The list of such charts at page 209 offers suggestions for statistical presentations.

CHAPTER 17

SURVEYS OF OPINIONS ON ANNUAL REPORTS

With the development of the annual report into a medium for bettering stockholder, employee, and public relations, it was natural that attention should be given to the interests of those who receive the report. It was equally logical that scientific methods of research should be used, in most cases, in getting these opinions.

SURVEYS COVERED

An attempt has been made to include in this book comprehensive information on surveys that have been made to determine what the annual report should include. These surveys fall into three groups:

1. Surveys by corporations addressed to their own stockholders. Such surveys have been made by the following corporations:
   Allegheny Ludlum Steel Corporation (see page 215).
   West Virginia Pulp and Paper Company (see page 217).
   The Borden Company (see page 217).
   General Foods Company (see page 219).
2. Surveys by independent agencies addressed to representative securityholders. Three such surveys are covered in this book:
   "What the stockholders want to know" by Ralph Gates (see page 221).
   The Balasny survey (see page 223).
   A survey of reading habits of those who receive annual reports (see page 224). This was part of a more comprehensive survey conducted by a large corporation whose name cannot be divulged.
3. Surveys by corporations and independent agencies addressed to security analysts. Two such surveys are included in this book:
   Consolidated Edison Company (see page 225).
   M. K. Mellott & Co. (see page 226).

For references to employee surveys, see page 250.

HOW TO USE THE SURVEYS

The surveys mentioned above are presented in full so that those using this book may draw their own conclusions as to how they should be guided by other peoples' studies.

Practically every question that might arise in the minds of executives as to stockholders' interests has been covered in the surveys reported. The responses, in most cases, have broad application, for stockholders in all companies have more or less similar interests. An example can be cited from three totally different surveys to support this conclusion. In the Balasny report (page 224), stockholder interests in employee relations were shown to be surprisingly low: 45% wanted a statistical analysis of employee relations; 21% did not want it; 34% were indifferent. In the same survey only 15% wanted graphs on employees. In the General Foods survey (page 220) only 26% replied that they were interested in employee relations and the subject was tenth on a list of twenty. In the Allegheny Ludlum survey, employee relations was fifteenth on a list of thirty-three subjects.

The above example can also be used to demonstrate why surveys must be used with discretion. Although it may be true that stockholders are not strongly interested in employee relations, from the standpoint of the corporation it may be highly desirable that the stockholders, who constitute part of the public, be aware of the company's relations with its employees. What the company can learn from the survey is that it must make the section of the report dealing with employee relations especially interesting and attractive in order to gain reader interest.

Another point to be made about annual-report surveys is that stockholder attitudes change as a result of the type of reports companies make available to them. For example, if a stockholder who owns stock in five companies receives from three reports containing information on research in developing products, he will be likely to look for this type of information in the reports of the other two companies. Thus, as more and more companies make available comprehensive, modern, understandable annual reports, stockholders may become more and more interested in subjects in which they now manifest comparatively little concern.

THE MAILED SURVEY

Most surveys of stockholder opinion are mailed to stockholders shortly *after* they have received an annual report. A company thus obtains fresh reactions to a particular report that can guide it in preparing future reports. There is also the *pre-issue* mailed survey, which seeks to determine what the stockholder would like to see in a forthcoming annual report. This method has the advantage of arousing interest in the report and of affording an opportunity to get timely suggestions.

General Foods Corporation used the pre-issue questionnaire for four successive years, 1941-1944. The company, however, does not feel that the pre-issue survey is superior to the post-issue survey. Nor does it recommend successive surveys in normal times. It conducted its four annual surveys during the war years when conditions were changing rapidly and stockholder attitudes were affected by economic adjustments.

General Foods' experience indicates that a short questionnaire is preferable to a long one. One year the company sent a preliminary twenty-two-question survey to a small cross-section of stockholders and solicited their coöperation in drafting the final questionnaire. As a result of the test, the final form contained ten questions of broad scope and ample space for the stockholder to express his own thoughts, "boosts," and "knocks" for GF. The results of this final questionnaire are given at page 219.

On the validity of mailed, stockholder surveys, the remarks of the Allegheny Ludlum Steel Corporation in reference to its own questionnaire (page 215) are worth noting. It stated in a newspaper release: " * * * while the response was gratifyingly heavy [27%], the opinions contributed are conclusive only for the group answering. They actually do not, except by assumption, apply to the non-answering group of stockholders, as would have been the case with a 'random sampling' of equal numerical strength. Nevertheless, a 27% response indicates a high degree of active personal interest on the part of the shareholders and the opinions of such a large group may well be taken as being broadly representative of stockholders as a whole."

THE PERSONAL INTERVIEW POLL

General Foods Corporation, always a pioneer in stockholder relations, recently decided to find the reactions of its women stockholders to its annual report and its *Stockholder News* through a personal-interview poll. It employed a professional, opinion-service organization to conduct a survey among women stockholders in five cities in different parts of the country. The purposes of the survey were to: (1) Discover the extent to which women had read the April 1947 edition of *Stockholder News* and the 1947 annual report, (2) Find out which features were liked best in the *Stockholder News,* (3) Determine the reaction of women readers to these publications.

In the survey, the interviewers saw 358 women stockholders, reaching one out of each three names supplied by the company. The results of the survey, so far as they relate to the annual report, are given on page 220.

TELLING STOCKHOLDERS THE RESULTS OF SURVEYS

After a survey has been made among the stockholders, it is advisable to refer to the results of the survey in the next report and to indicate how they are reflected in the report. Allegheny Ludlum Steel Corporation included the following statement on the first page of the annual report that followed its survey:

> Earlier this year the stockholders of Allegheny Ludlum Steel Corporation were asked in a survey, to indicate the kind of annual report that they would like to have. It was found that many wished to be told more about the company's position in the steel industry, and its products, outlook and research, and to be given a perspective on dividends and earnings broader than provided by the customary two-year comparisons. Pictures and charts were desired to help visualize the total presentation most readily, yet the report as a whole was not to be too long or too elaborate. A number suggested a digest or thumbnail summary of basic facts as being most serviceable to them. All the foregoing suggestions have helped to shape this year's report.

It should be added that the benefits of this survey will continue to be reflected in other practical ways, for the stockholders responded with a contribution of ideas and opinions that merit closest analysis for future use. The management extends its sincere thanks to the stockholders for their generous support of the undertaking.

THE ALLEGHENY LUDLUM STEEL CORPORATION SURVEY

The survey conducted by this company at the close of 1944, prior to the preparation of the annual report for that year, gave stockholders the opportunity to comment on the company's annual-report and managerial policies. Nearly 3300 of the company's 12,000 stockholders, or 27%, replied. They indicated in no uncertain terms that they liked the idea of being considered partners in the enterprise, regardless of the size of their holdings, and noted their preferences on thirty-two suggested topics as well as on other aspects of the report.

The questionnaire consisted of a four-page letter. The first page contained the letter reproduced below, pages 2, 3 and 4 contained the questions with boxes to be checked. The results of the survey are indicated below.

Dear Fellow Stockholder of Allegheny Ludlum Steel Corporation:

In a few weeks, the management of your company will begin preparation of the 1944 annual report of the Allegheny Ludlum Steel Corporation. We would like to make this an outstanding report from the point of view of subject matter, clarity and interest. For these reasons, we are seeking your assistance through the enclosed questionnaire which is being sent to each of the company's 12,000 stockholders.

Will you give us your help on each subject listed by simply checking the items that best express your opinion, returning the questionnaire in the enclosed, self-addressed envelope that requires no stamp?

We hope you will express your remarks freely and frankly in the space provided, for such an open expression of opinion will help us give you the information concerning the company in which you are most interested.

We will appreciate the prompt return of the questionnaire.

Very truly yours,
(signed) E. J. Hanley,
Secretary-Treasurer

I. Please check below the subjects you would like to have discussed in the 1944 annual report of the Allegheny Ludlum Steel Corporation.

Rank	Number	Subject
1	2263	Outlook for 1945 for Allegheny Ludlum
2	1939	Position of Allegheny Ludlum in steel industry
3	1817	Dividend policy
4	1633	Earnings
5	1615	Research and new products
6	1559	Company products
7	1369	Outlook for 1945 for business in general
8	1367	Postwar production plans
9	1232	Products manufactured
10	1216	Competition problems
11	1009	Reconversion problems
12	885	Taxes
13	870	Legislation affecting steel industry
14	837	Allegheny Ludlum war effort
15	817	Employee relations
16	809	History of Allegheny Ludlum
17	741	Salaries and wages
18	739	Plant modernization program
19	688	Postwar employment plans
20	671	Sales
21	661	Veterans reemployment plans
22	598	Contract termination
23	593	Manufacturing processes
24	588	Officers and directors
25	549	Depreciation policies
26	421	Advertising
27	421	Renegotiation of contracts
28	420	War production cut-backs
29	419	Pricing problems in steel
30	414	Distribution system
31	396	Inventories and methods of evaluation
32	284	Safety record
33	63	Others (please specify)

II. In your opinion, are steel manufacturers generally making (Check one)

Rank	Number	Per cent	Comment
1	824	28.5	Less profits?
2	715	24.8	Don't know
3	690	23.9	More profits than before the war?
4	657	22.8	About the same profits?
Total	2886	100.0	

III. What is your impression of the importance of research to a specialty steel company such as Allegheny Ludlum Steel Corporation?

Rank	Number	Per cent	Comment
1	2573	87.5	Very important
2	353	12.0	Important
3	14	0.5	Not so important
Total	2940	100.0	

IV. What do you think of the new radio program of Allegheny Ludlum Steel Corporation given Sunday nights under the title "Steel Horizons"? (Check one).

Rank	Number	Per cent	Comment
1	1924	65.3	Never heard it
2	821	27.9	Good program
3	182	6.2	Fair
4	17	0.6	Don't like it
Total	2944	100.0	

V. Would you read carefully a quarterly news letter sent to stockholders, including pictures of plants, processes and personalities?

Rank	Number	Per cent	Comment
1	2188	78.8	Yes
2	587	21.2	No
Total	2775	100.0	

VI. Do you think the annual report of Allegheny Ludlum Steel Corporation for 1944 should be (Check one)

Rank	Number	Per cent	Comment
1	1406	58.7	About the same as 1943?
2	503	21.0	More elaborate than that of 1943?
3	485	20.3	Shorter than that of 1943?
Total	2394	100.0	

VII. Do you think the annual reports of Allegheny Ludlum Steel Corporation are (Check one or more).

Rank	Number	Per cent	Comment
1	1166	39.0	Satisfactory in present form?
2	933	31.2	Interesting?
3	313	10.5	Clear?
4	132	4.4	Too general?
5	118	3.9	Too technical?
6	110	3.7	Too formal?
7	76	2.5	Dull?
8	71	2.4	Too detailed?
9	71	2.4	Vague?
Total	2990	100.0	

VIII. Do you think the annual report should contain pictures of any of the following aspects of Allegheny Ludlum Steel Corporation?

PLANTS

Rank	Number	Per cent	Comment
1	1454	64.1	Yes
2	815	35.9	No
Total	2269	100.0	

EMPLOYEES

Rank	Number	Per cent	Comment
1	1160	75.3	No
2	380	24.7	Yes
Total	1540	100.0	

MANAGEMENT

Rank	Number	Per cent	Comment
1	1098	64.7	No
2	598	35.3	Yes
Total	1696	100.0	

PRODUCTS

Rank	Number	Per cent	Comment
1	2035	79.2	Yes
2	535	20.8	No
Total	2570	100.0	

IX. What do you do with annual reports of Allegheny Ludlum Steel Corporation?

Rank	Number	Per cent	Comment
1	1390	47.2	Read and keep for future reference
2	1117	38.0	Read and throw in waste basket
3	374	12.7	Read and pass on to others
4	63	2.1	Don't read them
Total	2944	100.0	

XI. Remarks: [*Note.* X and XI asked for commendations, criticisms and remarks.]

XII. If you do not give your name, will you please indicate your sex?

Rank	Number	Per cent	Comment
1	2335	75.6	Men
2	755	24.4	Women
Total	3090	100.0	

THE WEST VIRGINIA PULP & PAPER CO. SURVEY

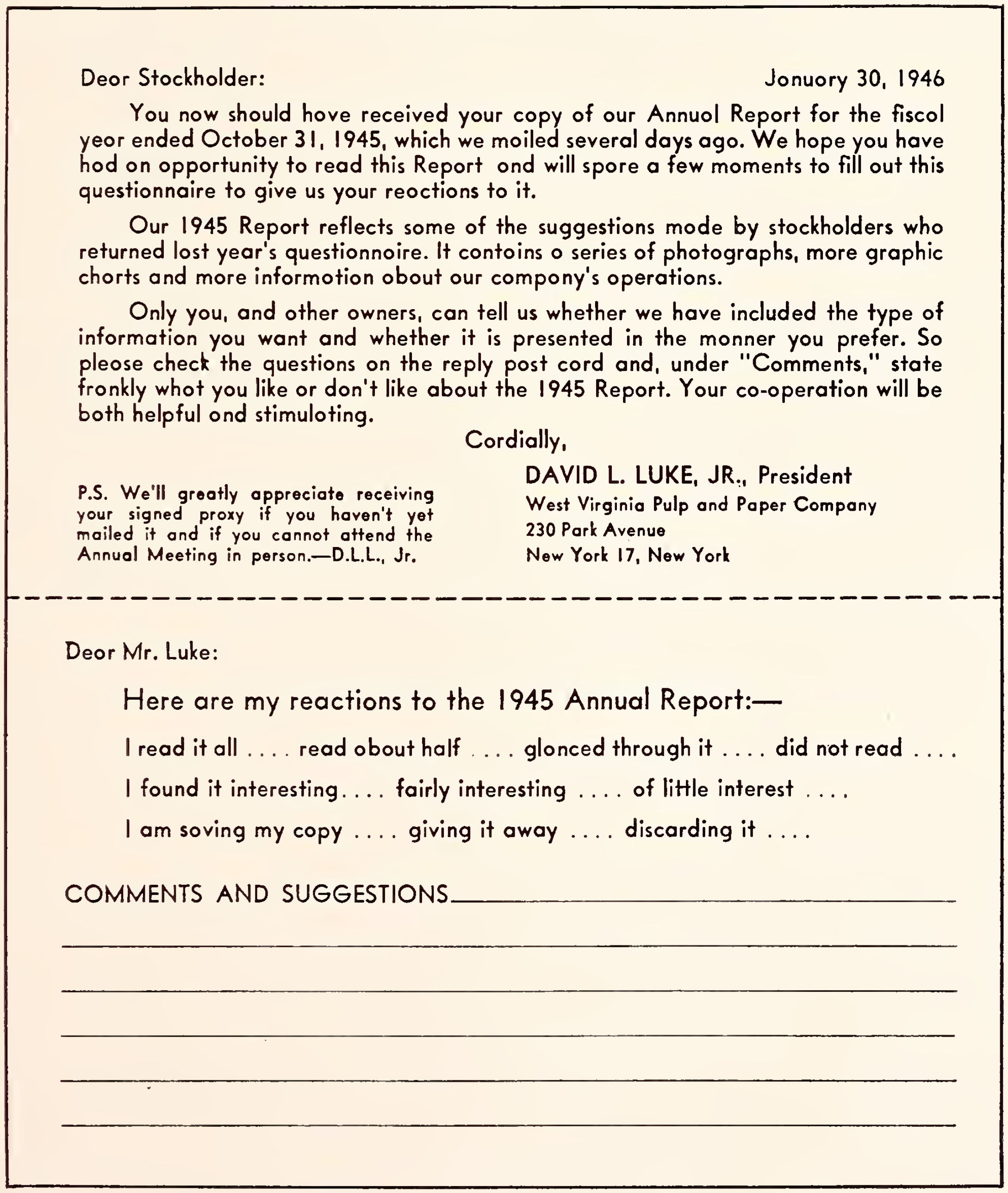
This company questioned its stockholders on the 1945 annual report with the following double postcard:

The 706 responses were tabulated as follows:

Read it all	522
Read about half	77
Glanced through it	62
Did not read it	8
No comments	23

Found it interesting	635
Fairly interesting	25
Of little interest	1

Saving it	466
Giving it away	91
Discarding it	61
No disposition noted	64



Dear Stockholder: January 30, 1946

You now should have received your copy of our Annual Report for the fiscal year ended October 31, 1945, which we mailed several days ago. We hope you have had an opportunity to read this Report and will spare a few moments to fill out this questionnaire to give us your reactions to it.

Our 1945 Report reflects some of the suggestions made by stockholders who returned last year's questionnaire. It contains a series of photographs, more graphic charts and more information about our company's operations.

Only you, and other owners, can tell us whether we have included the type of information you want and whether it is presented in the manner you prefer. So please check the questions on the reply post card and, under "Comments," state frankly what you like or don't like about the 1945 Report. Your co-operation will be both helpful and stimulating.

Cordially,

DAVID L. LUKE, JR., President
West Virginia Pulp and Paper Company
230 Park Avenue
New York 17, New York

P.S. We'll greatly appreciate receiving your signed proxy if you haven't yet mailed it and if you cannot attend the Annual Meeting in person.—D.L.L., Jr.

Dear Mr. Luke:

Here are my reactions to the 1945 Annual Report:—

I read it all .... read about half .... glanced through it .... did not read ....

I found it interesting.... fairly interesting .... of little interest ....

I am saving my copy .... giving it away .... discarding it ....

COMMENTS AND SUGGESTIONS

THE BORDEN SURVEY

A postcard questionnaire was sent along with the 1945 report by The Borden Company to determine how much of the report stockholders read and what features were of particular interest. The card read as follows:

Questionnaire on Annual Report

To Borden Stockholders:

In preparing our Annual Report we found it difficult to anticipate all of the questions that might occur to members of a stockholder family as large as ours. To assist in providing for the interests of a majority of stockholders, we have prepared the attached questionnaire to guide us in the preparation of our next Annual Report. Will you be good enough to check the questions listed and drop this card in the mail for me? Thank you.

THEODORE G. MONTAGUE,
President

I. How much of the Report did you read?
All Most Some None

II. Did the Report strike you as being:
Long Short Just Right

III. Please check the features in which you were particularly interested:
President's Message. (p. 3)
President's Comments. (pp. 4-16)
Pictures.
Charts.
Audited Financial Statements. (pp. 18-21)
5-Year Condensed Statement. (p. 26)
Special Articles. (pp. 24, 25, 27, 29)
Products Directory. (pp. 30-31)

IV. What special subjects would you be interested in having covered in future Annual Reports?

A tabulation of the returns is given below.

1. *How much of the report did you read?*

	Number	Percentage
All	1,042	51.89%
Most	640	31.87
Some	283	14.09
None*	26	1.30
No answer given	16	0.85
Total	2,007	100.00%

* Respondents answering "None" to the above question:

	Number	Percentage
No reason given	18	69.23%
Report "too long"	8	30.77
Total	26	100.00%

2. *Did the report strike you as being:*

	Number	Percentage
Long	519	25.84%
Short	15	0.81
Just right	1,326	66.03
No answer given	147	7.32
Total	2,007	100.00%

3. *Please check the features in which you were particularly interested:*

	Number	Percentage
President's message	1,127	12.65%
President's comments	1,255	14.08
Pictures	1,060	11.90
Charts	1,035	11.62
Audited financial statements	1,258	14.12
5-year consolidated statement	1,227	13.77
Special articles	842	9.45
Products directory	990	11.11
None stated	115	1.30
Total	8,909	100.00%

Number who found all features of interest	325	16.19%

Respondents who found only one feature of particular interest:

	Number	Percentage
President's message	10	9.90%
President's comments	9	8.92
Pictures	16	15.84
Charts	10	9.90
Audited financial statements	28	27.72
5-year consolidated statement	16	15.84
Special articles	4	3.96
Products inventory	8	7.92
Total	101	100.00%

Average number of respondents who found the features of particular interest:

President's message	1 in 8
President's comments	1 in 7
Pictures	1 in 8
Charts	1 in 8
Audited financial statements	1 in 7
5-year consolidated statement	1 in 7
Special articles	1 in 11
Products directory	1 in 9

Features of particular interest to stockholders listed in the order of preference:

1. Income and dividends.
2. Sales.
3. Taxes.
4. Operating report.
5. Working capital.
6. Other information, including: new products, expansion plan, future outlook, worker relations, income breakdown, new financing, research.
7. Current assets.
8. Current liabilities.
9. Reserves.
10. Administrative matters.
11. Property and equipment.
12. Capital stock and stockholders.

GENERAL FOODS FOURTH ANNUAL STOCKHOLDER SURVEY

General Foods Corporation's fourth annual questionnaire went to all preferred and common stockholders. The questions that were asked were decided upon after a pilot study had been made among a group of 2113 stockholders, representing a cross-section of the company's shareholders (see page 214). Replies to the final survey were received from 4780 stockholders. Of the replies, 63.9% were from men, 34.0% from women, 0.6% from joint-owners and 1.5% from unidentified classes of owners. The questions and the replies are tabulated below.

TABLE 1

WHAT STOCKHOLDERS WANT INCLUDED IN THE 1944 ANNUAL REPORT

From Question #1: "Do you wish to have the GF Annual Report for 1944 contain . . ."

	No.	%
a. Text		
More text information than in former years	429	9.0
About the same amount of text information as in former years	3,318	69.4
Less text information than in former years	510	10.7
No preference	6	.1
Don't know—not stated	517	10.8
Total interviews	4,780	100.0
b. Charts and Pictures		
More charts and pictures than in former years	995	20.0
About the same number of charts and pictures as in former years	2,751	57.6
Fewer charts and pictures than in former years	506	10.6
No preference	6	.1
Don't know—not stated	562	11.7
Total interviews	4,780	100.0

TABLE 2

READERSHIP OF 1943 ANNUAL REPORT

From Question #2: "Did you read all of your copy of the 1943 General Foods Annual Report?"

	No.	%
Read all	3,239	67.7
Did not read all	1,342	28.1
Don't know—not stated	172	3.6
New stockholder	27	.6
Total interviews	4,780	100.0

TABLE 3

PART READERSHIP

From Question #3: "If you did not read it all, do you remember about how much of it you did read?"

	No.	%
Read most of it	91	6.8
Read ⅔ of it	35	2.6
Read ¾ of it	48	3.6
Read ½ of it	170	12.7
Read ⅓ of it	24	1.8
Read ¼ of it	17	1.3
Read some of it	34	2.5
Read very little of it	50	3.7
Glanced through it	101	7.5
Read financial statements	174	13.0
Read topics of interest	118	8.8
Read earnings, taxes, dividends	26	1.9
Read charts, pictures, tabulations	18	1.3
Read none of it	23	1.7
Don't know—not stated	456	34.0
Total who did not read all of 1943 Annual Report	1,342	100.0

TABLE 4

MOST INTERESTING SUBJECTS FOR NEXT GF ANNUAL REPORT

From Question #4: "Again this year we ask you to check the five subjects you would be most interested in reading about in the next GF Annual Report."

	No.	%
Post-war plans and prospects	3,079	64.4
Earnings	2,835	59.3
Dividends	2,717	56.8
Research	1,781	37.3
Unfavorable news about GF	1,487	31.1
Consumer relations	1,376	28.8
Products	1,358	28.4
Policy governing new company acquisitions	1,334	27.9
Taxes	1,306	27.3
Employe relations	1,272	26.6
Union relations	1,064	22.3
Effect of wartime restrictions	1,055	22.1
Advertising	838	17.5
Sales	801	16.8
What GF does to promote nutrition	718	15.0
Raw materials and supplies	609	12.7
GF's war efforts	464	9.7
Containers	432	9.0
Others	161	3.4
Not stated	94	2.0
Total interviews	4,780	100.0

TABLE 5

PROPORTION WHO READ THE FINANCIAL PAGES OF NEWSPAPERS

From Question #5: "Do you read the financial pages of newspapers?"

	No.	%
Read financial papers:		
Regularly	2,740	57.3
Frequently	1,011	21.2
Occasionally	587	12.3
Seldom	317	6.6
Do not read financial papers	4	.1
Not stated	121	2.5
Total interviews	4,780	100.0

TABLE 6

PROPORTION WHO READ SPECIALIZED FINANCIAL PUBLICATIONS

From Question #6a: "Do you read specialized financial publications?

	No.	%
Read specialized financial publications	2,318	48.5
Do not read specialized financial publications	2,226	46.6
Not stated	236	4.9
Total interviews	4,780	100.0

TABLE 7

PUBLICATIONS READ

From Question #6b: "(If 'yes') Please write in the names of these publications."

	No.	%
Wall Street Journal	762	32.9
Financial World	514	22.2
Barron's	387	16.7
Magazine of Wall Street	369	15.9
Standard & Poor's	210	9.1
Journal of Commerce	178	7.7
United Business Service	147	6.3
Babson Report	120	5.2
Forbes	116	5.0
Moody's	82	3.5
Boston News Bureau	67	2.9
Business Week	50	2.2
Kiplinger Letter	50	2.2
Others	430	18.6
Various	76	3.3
Don't know—not stated	179	7.7
Total reading specialized financial publications	2,318	100.0

TABLE 8

OPINIONS ON STOCKHOLDER PROMOTION OF GF PRODUCTS

From Question #7a: "In normal times—when grocers' stocks of GF products are in adequate supply—do you believe our management should endeavor to get more GF stockholders to use more GF products in their own homes . . . and to urge GF stockholders to promote the use of GF products among their friends and acquaintances?"

	No.	%
Believe company should urge stockholders to use and promote GF products	3,803	79.6
Believe such action by company not particularly desirable	708	14.8
Don't know—not stated	269	5.6
Total interviews	4,780	100.0

GENERAL FOODS PERSONAL POLL OF WOMEN STOCKHOLDERS

The personal poll of General Foods women stockholders, described at page 214, brought out the following data:

General readership

Of the total 358 contacts, 40% of the women stockholders had read something in the annual report. (Opinion Research Corporation[1] in a study of stockholders in general found that 68% of all women stockholders either read annual reports hurriedly or not at all. This compares with the General Foods total annual-report nonreadership of 60%.)

When the 60% who had read nothing were asked why they had not read anything in the report, their replies were as follows:

Not interested	22%
Taken care of by husband or other person	14
Not enough time	14
Didn't receive	6
Can't read (bad eyesight)	2
No report	2
Total	60%

The back cover attracted far more attention—83%—than any picture or feature inside the report. The spread, with pictures of General Foods executives, came in for the second highest noting. The average noting for the pictures on those pages was 60%.

General reaction of readers

A majority of women who had read something in the annual report had a favorable reaction to it. Some were critical or uncertain of their reactions.

Favorable	68%
Critical	15
Uncertain	14
No report	3
Total	100%

89% of the report readers, when asked, "Do you believe that this report tried to give you a satisfactory picture of General Foods condition, or do you think it is incomplete in any way?" thought that it tried to give a satisfactory picture of General Foods' condition. Only one woman thought it was incomplete and she was unable to say in what way it was incomplete. The remainder didn't know or were unable to say whether it was complete or not.

When asked for suggestions to improve the report, almost three-fourths of the women were unable to make any at all. 9% wanted it made shorter, but when asked directly, "Do you think it was too long?" 27% said "Yes." The remainder of the suggestions follow:

None	72%
Make it shorter	9
Make it simpler	4
More pictures	3
Spend less money	2
More about General Foods products	2
Offer baskets	1
Use all space	1
Give ratio between assets and liabilities	1
Put General Foods News and Annual Report together	1
No report	4
Total	100%

THE GATES SURVEY

The report on "What Stockholders Want in Annual Reports," presented at the Financial Conference of the American Management Association in January 1941 by Ralph Gates,[2] was one of the earliest surveys. The findings are still valid. The report described the results of a questionnaire sent to 1500 stockholders—small, representative cross-sections, typical of the total stockholder groups, picked from three entirely different kinds of businesses. The companies concerned were the General Foods Corporation, manufacturers of packaged foods, the Bridgeport Brass Company, manufacturers of industrial goods, and the McCall Corporation, publishers. The questionnaire, which required thinking on the part of the recipients, brought a 40% return, an extraordinarily high percentage when it is recalled that most questionnaires get from 6% to 10% replies. The stockholders to whom the questionnaire was sent had no way of knowing what companies were involved.

The questions in the survey were designed to discover what stockholders did with reports, what style of report was acceptable to them, what subjects were of most importance to them, and what was their ability to understand the charts and curves that most annual reports contain. Here are some of the findings on these questions as reported by Mr. Gates.

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[1] A survey of reports to stockholders was made in 1944 by Opinion Research Corporation. Another survey was undertaken in 1947. For the latter study, six reports representing different approaches were used. Stockholders of each company were personally interviewed. Each such stockholder was shown the report, asked what he read and didn't read, and why, and what he wanted from his company in the way of an annual report. The results of this survey are available only to member companies whose fees are pooled to cover the costs of the research.

[2] *Financial Management Series No. 68,* American Management Association.

Do they read the report?

What a stockholder does with a report when he receives it has always been a matter of conjecture, so the first item on the questionnaire was devoted to that all-important point. Here is the question and the results:

When I get an annual report, I . . .
46%. . . .Read it thoroughly.
29%. . . .Glance through it, and throw it away.
22%. . . .Glance through it, and save it.
3%. . . .Don't give it much attention.

I find most reports I receive . . .
44%. . . .Difficult to understand.
44%. . . .Interesting and instructive.
12%. . . .Not worth much attention.

Annual reports I like best are . . .
30%. . . .Financial statement and president's short letter.
70%. . . .Detail story of company progress in addition to financial statements.

Pictures?

One of the most controversial ideas recently presented to management has been the suggestion that pictures be added to the annual report. Almost everyone in business has expressed an opinion. Now the most interested person, the stockholder, has been given the opportunity to give his opinions, for in the Survey of Stockholder Opinion he was asked to state:

If a company sent me an annual report that was illustrated with pictures similar to the style of LIFE magazine, I would think the company was . . . (The stockholder could check more than one if he desired.)

12%. . . .Undignified.
22%. . . .Modern and up-to-date.
16%. . . .Poorly managed.
63%. . . .Making an honest effort to make me understand company progress.
14%. . . .Trying to cover up something by diverting my attention.

Subjects on which I would like to receive information in a report are . . .

89%. . . .Financial statements.
62%. . . .Effect of war on business.
56%. . . .How much taxes paid.
56%. . . .Research plans and development.
54%. . . .New investments in manufacturing and selling operations.
54%. . . .Employee relations (wages, employment changes, etc.).
41%. . . .Where company sells products or goods.
30%. . . .Pictures of products.
25%. . . .Where company buys material.

Where there are no dividends

The company that pays no dividends has often contented itself with a close-mouthed statement of losses. That has been the best kind of report, from the viewpoint of management. But the viewpoint of the stockholders is quite the opposite, as shown by the answers to the proposition below:

If my company paid no dividends, I think the report should be . . .

9%. . . .A financial statement only.
89%. . . .Detailed information on why no profits were made.
2%. . . .A very elaborate report, with pictures.

Charts?

If an annual report had a chart like this [Fig. 152], *it would mean for the year 1940 that . . .*

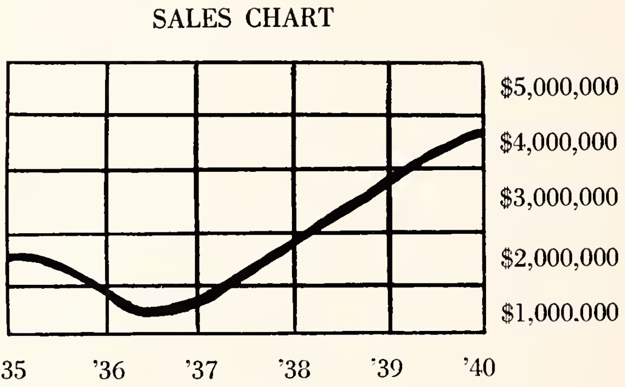

Fig. 152

10%. . . .The company made more money than in the last five years.
22%. . . .Sold greatest volume of goods in six years.
62%. . . .Sales were at the highest money value in six years.
6%. . . .Don't know.

THE BALASNY SURVEY

A survey to determine what stockholders want in their annual reports was conducted in 1944 by Raymond L. Balasny, president of the Yearbooks Publishing Company. A questionnaire containing four groups of questions and a section for remarks was sent to over 2000 readers of the *Financial World* in all parts of the country. From the remarks made by respondents, it was evident that a representative cross-section of investors had been reached. Many of the respondents said they owned stocks in over 150 corporations. The questions and the tabulation of replies are given below.

General Questions

1. Check the magazine to which you would prefer annual report to correspond for *cover size.*

Reader's Digest	22%
Time Magazine	70
Life Magazine	4
Indifferent	4

2. Check the number of pages that you would like the report to contain considering your above designated cover size.

	R. D.	TIME	LIFE
Less than 12 pages	50%	32%	50%
12 pages	26	30	19
24 pages	8	22	6
32 pages	4	6	
48 pages	4	1	6
Over 48 pages	1	2	6
Indifferent	7	7	13

3. Check the kind of cover you would like.

Plain	76%
Decorative	21
Indifferent	3

	Yes	No	Indifferent
4. Would you like bar and line graphs in your annual report?	59%	9%	32%
5. Would you like pictorial graphs in your annual report?	46	19	35
6. Would you like to have the text broken by graphs and photographs in the appropriate places?	66	13	21

7. Check the number of ink colors with which you would like your report to be made up.

Black	48%
Black and 1 color	28
Black and 2 colors	12
Black and 3 colors	4
Black and 4 colors	1
Black and more than 4 colors	1
Indifferent	6

8. Check the style in which you would like the text written.

Non-technical prose	79%
Customary legal	13
News flash style	6
Indifferent	2

	Yes	No	Indifferent
9. Have you been in the habit of saving your annual reports?	58%	36%	6%

10. If the report was attractive and readable would you

Show it to your business associates?	52%
Show it to your family?	44
Show it to your friends?	39

Questions on Subject Matter

	Yes	No	Indifferent
11. Would you like a summary page of statistics of the past year pertaining to operations with a comparison with previous years?	92%	2%	6%
12. Would you prefer a detailed balance sheet and profit and loss statement?	69	12	19
13. Would you like the balance sheet to be presented with a year to year comparison?	89	2	9

If so, check (one) the number of years comparison you would like.

2 years	29%
3 years	25
5 years	29
10 years	14
25 years	3

	Yes	No	Indifferent
14. Would you like a "Cash Income vs. Cash Outgo" statement?	59%	13%	27%
15. Would you like a *percentage* analysis of all statistics presented?	51	18	31
16. Do you believe a statement as to dividend policy would make for a better understanding?	94	2	4

17. Check from the following items pertaining to taxes those in which you are interested.

a. ratio of taxes paid to net profits before taxes	64%
b. ratio of taxes paid to wages paid	27
c. ratio of taxes paid to dividends paid	58
d. annual taxes for the previous ten years and the percent of increase or decrease	47

	Yes	No	Indifferent
18. Would you like a gross sales breakdown?	39%	21%	40%
19. Would you like a statistical analysis of employee relations?	45	21	34

If so, please check from the following items pertaining to employees those in which you are interested.

a. Number	65%
b. Sex	30
c. Age	25
d. Salaries	70
e. Wages and hours	67
f. Comparison of the foregoing *a* through *e* with the industry averages and also the U. S. all-industry averages	67

20. Check from the following items pertaining to *stockholders* those in which you are interested.

a. Yearly trends in the number of stockholders	64%
b. Sex distribution of stockholders	11
c. Occupations of stockholders	22
d. Average shareholdings per stockholder	71
e. Geographical percentage distribution of stockholders	29

	Yes	No	Indifferent
21. Would you like to know the background and affiliations of your officers and directors?	88%	2%	10%
22. Would you like to know the general future plans of the company?	95	1	4
23. Would you be interested in the company's advertising program?	62	14	24
24. Would you like a descriptive list of products and services?	82	5	13
25. Would you like to know the kinds of research conducted by your company?	82	4	14
26. Would you like to know the number of employees engaged in research?	53	14	33

Questions on Graphs

27. Check from the following items pertaining to graphs those in which you are interested.

a. Map showing location of company, its plants, its sales agencies, its subsidiaries, and its sphere of influence	64%
b. Graph showing trend of gross income and net income	62
c. Graph titled "Where From—Where Go (Cash Income vs. Cash Outgo)"	35
d. A graph on trend of earnings and dividends	88
e. Graphs on the subject of taxes paid by the corporation	43
f. Graphs on employees	15
g. Map showing the geographical distribution of stockholders	16
h. Graph on sales trends	49
i. Organization chart of the company	32

Questions on Photographs

28. Check those of the following of which you would like to see photographs.

a. Company president		39%
Informal pose	85%	
Formal portrait	15	
b. Officers and directors		29
c. Buildings and plant facilities		72
d. Products		78
e. Use of products		57
f. Outstanding company events of the year		31
g. Users of products		31
h. Process of manufacturing the products		43
i. Employees in action		19

SURVEY SHOWING HOW MUCH ATTENTION IS GIVEN THE REPORT

A survey made by sending questionnaires to 2000 representative security-holders in twenty-five cities of the United States and to 313 community leaders in four eastern cities where the company making the survey has plants, throws light on the reading habits of those who receive reports. The questions relating to what the stockholder does with the report and the tabulation of replies are as follows:

> When you receive the annual report of one of the companies in which you own stock, do you generally:

	All Replies	%	Community Leaders	%
Read all of the report?	336	48	42	42
Read ¾ of it?	91	13	12	12
Read ½ of it?	86	13	18	18
Read ¼ of it?	15	2	3	3
Skim through it?	150	21	20	19
Read none of it?	7	1	0	0
(Not stated)	13	2	6	6
(Total replies)	698	100	101	100

The people who answered this question constitute a group with more than average interest in corporate affairs, for it was determined through question and answer that 50% of those who returned the questionnaire owned stock in more than eleven companies. Nearly one-third of the group said they owned stock in more than twenty-five companies.

WHAT THE SECURITY ANALYST WANTS

Security analysts, as a group, study the corporate annual report with keener interest than any other single class of readers. From their viewpoint, the progress that has been made in amplifying annual reports and making them more readable and interesting still leaves much to be desired. Only a small percentage of the industrial reports satisfy the security analysts who look for full financial information and certain nonfinancial information. In their opinion, railroads and public utilities usually do a better job than industrial companies in reporting the type of information that the security analyst looks for. The reason is obvious—they are "regulated" companies.

THE CONSOLIDATED EDISON COMPANY SURVEY

The Consolidated Edison Company conducted a survey among 750 members of the New York Society of Security Analysts, to determine if the company's annual report was providing security analysts and investors with the information that they need. Eighty-eight replies were received and tabulated. As indicated at page 16, and in the letter reproduced below, this company feels that if it is to have any one group of people in mind in preparing the annual report, that group should be the sophisticated investors.

The letter that accompanied this survey is reproduced below. The questions that have general interest for anyone working on the annual report and some of the comments that other companies might profit by are also given below.

To the Members of
The New York Society of Security Analysts:

This letter is inspired by an article in the recent issue of The Analysts Journal entitled "Retrogression in Annual Reports to Stockholders?" in which the point is made that the recent trend toward modernizing and streamlining has resulted in less informative reports.

We have felt for many years that if our report was to be directed to one group more than any other, that group should be the sophisticated investors, those who can readily comprehend the financial statements and statistics presented and who at the same time would welcome the information furnished by a running account of the year's activities.

We have believed that this group, which includes the members of your organization, is, by reason of ability to interpret the Company to others, the best liaison we have with holders of large amounts of our securities.

We would now like to know how closely we have come to providing this group with what it needs and wants in an annual report, and we are canvassing your membership to try to find out.

You will find enclosed a copy of our 1944 Annual Report, just released. You will also find a questionnaire and a self-addressed stamped envelope. When you have gone over the report will you kindly check the questionnaire, adding your comments as briefly or as fully as you wish, and return it to us?

Your cooperation will be very much appreciated and we assure you all suggestions will be given most thorough consideration in the preparation of our subsequent annual reports.

Very truly yours,
(signed) H. S. Sutton
Executive Assistant to the President

1. "Simplified Form of Statement of Income and Its Use for the Year 1944" (p. 4)

	Number	%
Object to it	2	2.3
Like it	68	77.2
Don't care	10	11.4
Blank	8	9.1

2. President's letter (pages 5 to 16)

	Number	%
Too long	9	10.2
Too short	3	3.4
About right length	62	70.5
Blank	14	15.9

3. "Four-year Comparison of Earnings" (p. 6)

	Number	%
Helpful	81	92.0
Of little value	2	2.3
Don't care	2	2.3
Blank	3	3.4

4. "Estimated Reduction in Federal Income Tax Due to Surplus Charges" (p. 8)

	Number	%
This explanation is clear and adequate	60	68.2
Is not adequate	14	15.9
Blank	14	15.9

5. "Detailed Tax Comparisons" (Table, p. 8)

	Number	%
Useful	78	88.6
Not useful	1	1.1
Don't care	5	5.7
Blank	4	4.6

8. "Employes and Employe Relations" (p. 13)

	Number	%
Would like more detail	8	9.1
Prefer less detail	11	12.5
About right	63	71.6
Blank	6	6.8

9. "Stockholders" (p. 15)

	Number	%
Would like more detail	12	13.6
Prefer less detail	6	6.8
About right	62	70.5
Blank	8	9.1

10. Chart (Line chart showing Consolidated Edison System revenues compared with electric and gas industries and national industrial production. See similar chart in Fig. 26, page 64.)

	Number	%
Find this type of chart interesting and helpful	67	76.1
Of little value	11	12.5
Don't care	6	6.8
Blank	4	4.6

11. "Operating Statistics" (p. 17)

	Number	%
Like ten-year tables	75	85.2
Five years would be adequate	6	6.8
Blank	7	8.0

12. Financial Statements (pages 19 to 25)

	Number	%
Would like more detail	17	19.3
Prefer less detail	3	3.4
Just about right	51	58.0
Like comparative statements	52	59.0
Find them of little value	0	0
Blank	5	5.7

13. "Investments in Subsidiary Companies" (p. 22)

	Number	%
Helpful	74	84.1
Of little value	5	5.7
Don't care	4	4.5
Blank	5	5.7

14. "Long Term Debt Outstanding" (pages 28 and 29)

	Number	%
Helpful	81	92.0
Of little value	2	2.3
Don't care	0	0
Blank	5	5.7

Suggestions that occurred frequently and that may be of general usefulness:

Round off dollar figures to the nearest thousand.

Show earnings and revenue data for a period of ten years or longer.

Italics used to show a decrease were not clear enough.

Want comments on future prospects of the company.

THE M. K. MELLOTT & CO. SURVEY

M. K. Mellott & Co., public relations counselors, Pittsburgh, Pa., sent 1000 questionnaires to analysts associated with banks, brokers, financial publishers, investment counselors, investment trusts and insurance companies to ascertain their attitude toward current corporate reporting. The study was made late in 1945. The questions asked are shown in the following tabulation. Of special interest are the replies to question 3, which show the items on which the analyst desires better coverage in the annual report.

Summary of Questionnaire Results

Summary of 123 responses from security analysts, brokers, investment houses, insurance companies, and the like, to a questionnaire on the "Adequacy of Corporate Reporting" by M. K. Mellott and Company, public relations firm of Pittsburgh, Pa., as of November 1, 1945.

1. (*a*) From what sources do you now obtain corporate information?

Rank	*Number*	*Per Cent*	*Source*
1	114	99.1	Company reports
2	110	95.7	Statistical services
3	104	90.4	Newspapers
4	95	82.6	Personal contact with company officers
5	86	74.8	Securities and Exchange Commission
6	77	67.0	Magazines
7	54	47.0	Personal contact with company competitors
8	40	34.8	Personal contact with company customers
9	32	27.8	Personal contact with company suppliers
10	49	42.6	Other sources

Total number reporting—115.

(*b*) Which sources do you consider best?

Rank	*Number*	*Per Cent*	*Source*
1	66	64.1	Company reports
2	60	58.3	Personal contact with company officers
3	42	40.8	Statistical services
4	33	32.0	Securities and Exchange Commission
5	22	21.4	Personal contact with company competitors
6	13	12.6	Personal contact with company customers
7	12	11.7	Newspapers
8	11	10.7	Personal contact with company suppliers
9	5	4.9	Magazines
10	18	17.5	Other sources

Total number reporting—103.

2. Would you say that, in general, corporate reporting being done today meets the needs of the security investor?

Rank	*Number*	*Per Cent*	*Comment*
1	63	56.2	Inadequately
2	47	42.0	Adequately
3	2	1.8	Completely
Total	112	100.0	

3. Which of the following classes of information is generally inadequately supplied in today's reporting program of corporations to the public?

Part A—Financial Information

Rank	*Number*	*Per Cent*	*Item*
1	74	71.8	Costs
2	61	59.2	Depreciation policy
3	50	48.5	Reserves
4	49	47.6	Unfilled orders
5	47	45.6	Sales
6	41	39.8	Miscellaneous income
7	30	29.1	Taxes
8	23	22.3	Earnings
9	20	19.4	Assets
10	9	8.7	Working capital
11	7	6.8	Capital and surplus
12	5	4.9	Funded debt
13	3	2.9	Dividends
14	21	20.4	Other

Total number reporting—103.

Part B—Other Information

Rank	*Number*	*Per Cent*	*Item*
1	64	66.7	Competition
2	46	47.9	Management
3	46	47.9	Merchandising policy
4	45	46.9	Research
5	44	45.8	Markets
6	44	45.8	Prices
7	40	41.7	Products
8	38	39.6	Supply sources
9	37	38.5	Labor relations
10	36	37.5	Subsidiaries
11	33	34.4	Plants and equipment
12	30	31.2	Production
13	25	26.0	History
14	24	25.0	Government relations
15	22	22.9	Customer relations
16	14	14.6	Stockholders
17	5	5.2	Other

Total number reporting—96.

CONTROLLERSHIP FOUNDATION SURVEY

The Controllership Foundation, Inc. will make available in 1948 the results of an inquiry to find out what various groups of people want in corporation annual reports. The Controllership Foundation expects that its report will eliminate confusion and waste in present efforts to tell the business story. In the investigation, which is being conducted by Elmo Roper, New York City, the public is being classified into groups. Effort is being made, through depth interviews, to find out what financial analysts and bankers want in the way of financial information. The informational needs of large investors are being studied, as are those of women investors. Also, through public-opinion polling methods, the needs of what might be called "typical" or "average" small stockholders are being examined. Extensive opinion polling is being conducted among workers in factory and office. Business and professional groups, including educators, are being dealt with in a separate classification.

WHAT COMPANIES MAKE THE BEST REPORTS, IN STOCKHOLDERS' OPINIONS

A group of 2000 investors (see page 224) were asked, "What company or companies, in your opinion, generally put out the best annual reports, from a stockholders' viewpoint?" In the 698 replies received, 125 different companies were mentioned. The corporations named most often and the number of persons who so rated them are listed below. All other companies that were mentioned received from one to three votes.

General Motors	80
Chesapeake & Ohio RR	37
A T & T	37
General Electric	32
U. S. Steel	28
Borden's	27
General Foods	25
Standard Oil of N. J.	20
Du Pont Company	15
Westinghouse	11
Swift	11
Chrysler	10
Socony Vacuum	10
Republic Steel	9
Consolidated Edison	9
Pennsylvania RR	9
Libby McNeil	7
Union Pacific	7
Eastman Kodak	6
Caterpillar Tractor	6
Pullman	6
Tidewater Oil	6

The number of stockholders who receive annual reports and the general publicity given to the report are, of course, factors in any choice of best reports. A company that sends an excellently prepared, comprehensive report to 400,000 stockholders and follows it up with wide publicity stands a better chance of receiving repeated mention than one with an equally substantial report that is sent to 50,000 stockholders and is given no further publicity. The fact remains, nevertheless, that the companies mentioned have established a reputation for offering reports that are interestingly presented.

WHAT STOCKHOLDERS HAVE SAID ABOUT THE COST OF MODERN REPORTS

Whenever stockholders have been given an opportunity to express remarks in questionnaires, some have commented upon the expense of an elaborate report. It is clear that they overlook the fact that the cost, when reduced to per-copy expense, is not substantial as measured against what the company can gain from a complete, attractively presented, factual report.

HOW TO BRING STOCKHOLDERS AND MANAGEMENT TOGETHER

For many years management acted as though its sole responsibility to stockholders was to follow the letter of the law. A formal annual meeting of stockholders, an annual report, payment of dividends when profits permitted, special consents of the stockholders when the statute, charter or by-laws required them—these constituted the only management-stockholder contacts. Unfortunately, the bulk of American corporations still adhere to this narrow concept of stockholder relations.

Some of the larger corporations, however, have made a decided effort to bring management and stockholders closer together. Year in and year out, they have in operation a carefully prepared and well rounded stockholders-relation program. But these companies are the exception.

The slowness of management generally to follow the lead of the more advanced corporations is surprising, first, because stock ownership has expanded rapidly in the past twenty years,[1] and second, because management has everything to gain and nothing to lose by improving relations with stockholders. This applies to the large corporation as well as the small one that is not closely held. The advantages listed below show the potential gains from developing a loyal and informed group of stockholders.

ADVANTAGES OF IMPROVING STOCKHOLDER RELATIONS

Here is what a corporation can gain from a sound stockholder-relations program:

1. *Better public relations.* To the extent that the company wins support of its stockholders, it automatically gains public support, for stockholders are a part of the public. Furthermore, each informed stockholder can influence family and friends—also part of the public.

2. *Support of the private-enterprise system.* Stockholders are generally on the side of the private-enterprise system. They are inactive supporters, however, principally because they are inarticulate. The corporation can help make them articulate. For example, when the company points out in its stockholder literature how shareholders, management and workers contribute to and share in profits, it furnishes the stockholder with something to say when business is attacked as out to make more than it deserves.

3. *Support of the company.* Should the company undeservedly run into adverse publicity, it can count upon support of its stockholders—if it has kept them informed. It can also ask the stockholders to help in opposing pending legislation that would hurt their interests. Similarly, it can urge them to endorse pending bills that the company favors.

An example of the way in which stockholder coöperation can be obtained when relations are good, was recently demonstrated at a stockholders' meeting of the Pennsylvania Railroad Company. A stockholder addressed the meeting at considerable length, urging stockholders to take a more active part in matters involving labor and governmental relations. He proposed a resolution that a committee of small and large stockholders be formed by the management. The committee would work with management on labor and governmental matters to emphasize the fact that management and labor employment are made possible by the stockholders' investment. The resolution was supported by management and adopted at the meeting. Shortly thereafter the committee that management had appointed met with the president of the company. At this

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[1] The following list is representative of what has happened to stock ownership in the past twenty years.

	1926	*1936*	*1946*
American Tel. & Tel.	399,121	640,991	695,660
General Motors Corp.	50,369*	342,384*	430,384*
Standard Oil (N. J.)	77,231	120,630	162,228
Consolidated Edison Co. of N. Y.	60,000*	114,395*	152,888*
American Home Products	2,000	7,669	11,800
Sutherland Paper	267	1,612	2,620
Fansteel Metallurgical	72	699	1,541

* Including preferred shareholders

meeting, the president reviewed for the committee various governmental matters having an effect upon the interests of the company and its stockholders. A special letter was sent to the stockholders describing the origin, purpose and recommendations of the committee.

4. *Support of management.* By keeping stockholders informed, confidence is developed between management and owners. Stockholders get a better understanding of the task of running a modern business. Management becomes more alert to the stockholders' viewpoint. With both groups profiting in this way, the chances of management being troubled by recalcitrant stockholders are reduced. The occasional troublemaking stockholder finds himself a lone wolf.

5. *Support of the stock.* Management is always disturbed when the company's stock takes a nose-dive because of panicky liquidation. An informed family of stockholders is a bulwark against unwarranted price drops. Another stabilizing influence can also result from winning stockholders as friends. A friendly stockholder, fully informed of company affairs, has a pride in ownership of his shares. All his family knows how he feels about the stock. When they inherit it or acquire it by gift, they hold on to the investment. That, too, is obviously helpful in a disorderly market.

6. *Support of the product.* A corporation can make its informed stockholders boosters, if not actual users, of its products.

BASIS OF A SOUND STOCKHOLDER RELATIONS PROGRAM

Before management can plan a sound stockholder-relations program, it must:

1. Fix the responsibility for establishing and carrying through the activity.
2. Analyze its stockholder lists to know whom it is addressing.
3. Learn the stockholders' attitude toward the company.
4. Fix in its mind the functions of the stockholder and aim to get him to recognize these functions as his.
5. Know the objectives to be accomplished.
6. Be familiar with the techniques of improving stockholder relations. Each of these "musts" is discussed below.

FIXING THE RESPONSIBILITY FOR STOCKHOLDER RELATIONS

Once a company recognizes the importance of mutual understanding between shareholders and management and decides to improve its stockholder relations, it must find the right person to head this activity. It should place the responsibility in someone who has had experience with public relations, for stockholder relations is but a part of public relations. It must select someone who is high enough in authority to make important decisions and important enough in rank to hold the respect of the shareholders.

Where management finally places the responsibility depends upon the particular organization. A recent survey[2] of stockholder-relations activities conducted by Verne Burnett, public relations consultant, in coöperation with Association of National Advertisers, Inc., and the *Journal of Capital,* throws light upon the subject of who handles stockholder relations. The survey analyzed the methods used by one hundred companies to keep 3,500,000 stockholders informed. In three out of four of these companies, a definite official or department had been assigned to supervise stockholder relations. The survey gives the following information as to where the responsibility was placed in these companies:

The Secretary—alone or with the assistance of other officials or supervision of higher officers—in thirty-two instances.

The President—alone or in collaboration with other officials—in twenty-three instances.

The Treasurer or Secretary-Treasurer—alone or with the assistance of other officials or supervision of higher officers—in thirteen instances.

The Public Relations Director—alone or with the assistance or supervision of company officers—in twelve instances.

ANALYZING THE STOCKHOLDERS

In the opinion of Harold S. Sutton, Treasurer, Consolidated Edison Company of New York, Inc., the corporation should direct its stockholder-relations program to those among its shareholders who are permanent investors. This means that the corporation should exclude the casual holder, the outright speculator, the involuntary investor and others who are not bona fide investors. The casual investor is, for example, one whose dividends are inconsequential in comparison with his total assets and income. Such a stockholder will have slight interest in the company. The involuntary investor is one who bought the stock because he hoped that it would go up in price. Disappointed, he hung on. His interest in and loyalty to the company is colored by a grievance. As to the others, the real investors, says Mr. Sutton, remember that they are people—and people are funny.

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[2] Copies of this survey can be obtained from the Association of National Advertisers, Inc., 285 Madison Ave., New York City ($2.00).

To quote directly from his address before the Investors League's 1947 forum on management-stockholder relations:

> Where, oh where, is that ideal investor who has gotten out the statistical manuals and a file of your annual and quarterly reports, who has studied your history and your prospects, who has been persuaded, through careful inquiry, that you have the most competent, the most aggressive and at the same time the most conservative management in your particular industry, and then, in calm possession of all the facts, has gone to his broker and placed his order? The one who from then on acknowledges the president's letter of welcome, always sends in his proxy, or else attends your annual meeting and asks only the most pertinent of questions, reports changes of address at once, deposits his dividend checks promptly, and generously supports the Investors League and comes to all its meetings. He may be in the ranks of your stockholders—this paragon—but how seldom you see traces of him. * * *
>
> Those charged with the responsibility for relations with the stockholders in corporations have to realize that they are dealing *not* with a sharply defined statistical average, but with a cross-section of our body politic; that they are up against all the apathy, indifference, and lethargy which we Americans normally demonstrate in the conduct of our affairs.

Although it is true that there is no such thing as an average stockholder, it would be foolhardy to plan a stockholder-relations program without a statistical picture of the bona fide investors. Therefore, analysis in order to arrive at the following information is essential:

1. Percentage of stockholders who are men and women.
2. Geographical distribution of the stock.
3. How many stockholders own 1 to 10, 10 to 50, 50 to 100, and so on, shares.
4. Length of time shares have been held.
5. Occupations.
6. Age groups.

Later in this chapter we point out how information on age and occupations can be obtained (see page 248). The remainder of the information can be compiled from the stock records. The usual practice is to make an occasional survey of who owns the company. The Borden Company, however, makes a continuous study of company ownership.

LEARNING THE STOCKHOLDERS' ATTITUDE TOWARD THE COMPANY

In a closely held company, management is likely to know, without any special study, whether the owners are critical of the company's policies, whether they consider the management alert and aggressive and whether they are a satisfied group. If stock ownership is widely distributed, management can learn something of stockholder attitudes from:

1. Correspondence with the stockholders. See page 249.

2. Surveys that incidentally bring out opinions. For example, the Allegheny Ludlum Steel Corporation survey reported at page 215 asked the stockholders to list any activity, policy, product or practice of the company that they commended or criticized, and provided space for additional remarks.

3. Turnover of stock ownership. The length of time shares have been held reflects the stockholders' satisfaction with the management. A company that finds its old-timers holding on to shares when earnings are declining or when losses have been reported, knows that the stockholders have faith in the company and are willing to continue to support it.

4. The price of the stock. The stock of some companies never rises in price to its true value—a reflection, in some instances, of dissatisfaction with dividend policy.

WHAT ARE THE FUNCTIONS OF A STOCKHOLDER

A stockholder may not recognize that he has any function beyond collecting dividends. But management may see the function of a stockholder as much broader. If it does, it must try to get the stockholder to see his function as management sees it.

At stockholders' meetings held by General Mills, Inc., Chairman James F. Bell emphasizes the responsibilities that go with stock ownership. In a brief address to stockholders at a regional meeting, he said:

> As a stockholder, you are an integral part of an enterprise engaged in the manufacture of goods and services for sale to the public. You have a duty to see that the business is conducted in the public interest. You have an obligation to your management to see that it is operating efficiently. You have a responsibility likewise to the workers, whose jobs you have created and whose tools you have furnished.

Mr. Bell lists these specific duties of the stockholder:

1. To know the company—its products, management, services, financial structure—the character and reputation of those who, as officers and directors, represent his interests and formulate policies regarding them.
2. To carefully analyze the company's printed reports and publications.
3. To maintain personal contact with management wherever possible.
4. To buy the goods made by his company, insist upon getting them. In so doing he is really buying for himself.
5. To urge others to buy them.
6. To act as partner, friend, buyer, salesman, advertising representative, protector and counselor to management and labor.
7. In short, to get behind the company morally and spiritually, as well as financially.

ESTABLISHING THE OBJECTIVES

The objectives of a stockholder-relations program have been intimated in the six gains mentioned at page 229. These advantages, it will be noticed, are largely intangible. In many instances, therefore, the company will have no measure of the success of its efforts until an emergency arises. However, it may receive unsolicited letters of appreciation, suggestions and other evidences of growing stockholder interest. It can, of course, make a periodic sampling of its stockholders, as suggested at page 248, in order to measure the extent to which objectives are being attained.

Since the objectives are intangible, the approach to acquiring them is usually subtle. Skill is required in awakening stockholder interest. In winning stockholder support of the company's products, however, the corporation may use a direct appeal. The reason is obvious. Stockholders can take no offense at management's efforts to increase sales, even if it asks for the stockholders' help. Producers of foods and drugs have been the leaders in making a direct bid for stockholder patronage and support. A few examples follow.

ASKING STOCKHOLDERS FOR PRODUCT SUPPORT

American Home Products Corporation used a dividend enclosure entitled "20,000 Potential Salesmen"—the total of workers and stockholders—to solicit stockholder support. The enclosure ended with this statement: "Since you have a real interest in the progress of this Company, I am sure you will demonstrate that interest by using these products and by introducing them to your friends."

Companies whose products are indirectly used by the stockholders sometimes make a similar bid for stockholder recognition of their wares. For example, Thatcher Glass Manufacturing Company, Inc., winds up a letter to stockholders that was sent as a dividend enclosure, in this way: "When you make your purchase, whether food, beverage, floor wax or fly spray, ask for it in a glass container. As a Thatcher stockholder, you owe it to yourself. Then look for the mTc trademark on the bottom because that means it's a quality glass container made by the Thatcher Glass Manufacturing Company, Inc."

Practically every type of mailed communication with stockholders has been used in encouraging stockholder interest in company products. In addition, the following direct methods have also been found effective: (1) Offering credit cards (see page 246), (2) giving local dealers the names of stockholders within the area, (3) offering gift packages (see page 246).

Showing stockholders how the product will help them as consumers—a straight advertising appeal to immediate self-interest—may be more effective than a plea for their support as stockholders. Even better is the distribution of samples discussed at page 246.

TECHNIQUES FOR IMPROVING STOCKHOLDER RELATIONS

The most important single technique for creating a loyal and informed body of stockholders is to send them an informative, attractive, readable annual report. Since this book is devoted to that subject, nothing further need be said here about the annual report. It is worth repeating, however, that a statement in the annual report of the company's policy in preparing the report is an effective way to show management's desire to have its stockholders know the company better. See page 25.

The balance of this chapter explains the techniques of the following methods of improving stockholder relations:

1. Interim reports.
2. Dividend enclosures.
3. Annual meetings.
4. Regional meetings.
5. Film versions of annual reports; television.
6. Reports on stockholder meetings.
7. Special letters to stockholders.
8. Stockholder house organs.
9. Company and institutional booklets.
10. Other mailings to stockholders.
11. Gifts and special offers to stockholders.
12. Welcome letters to new stockholders.
13. Letters to stockholders increasing their holdings.
14. Regret letters to departing stockholders.
15. Contacts through solicitation of proxies.
16. Surveys among stockholders.
17. Replies to stockholders' letters.
18. Invitations to visit the plant.

INTERIM REPORTS WITH FINANCIAL INFORMATION

An interim report to stockholders has one principal purpose: To keep them informed concerning the activities and business of the company during the interval between annual reports. In this discussion, interim reports refer to those that contain some form of quarterly or semi-annual financial statement.

Corporations are not usually required to send stockholders an interim report, they do so voluntarily as a part of their stockholder-relations program. The interim-earnings statements required of listed companies by the New York Stock Exchange do not have to be mailed to stockholders. It is sufficient if they are released to at least two New York newspapers of general circulation and to the statistical services for publication as a news item as soon as possible after the close of the periods agreed upon with the Exchange. Two copies of the published statements must be filed with the Exchange. Undoubtedly, the Exchange requirements have given impetus to the mailing of interim reports to stockholders.

Not many companies that are using interim reports are taking advantage of the opportunity they afford for making of each stockholder a staunch supporter of the company and a satisfied co-owner. An examination of interim reports shows most of them to be dull, unattractive, stereotyped and uninformative to the untrained reader of financial statements.

The following interesting figures on interim-report practices, disclosed by a survey of 1000 companies with widely held shares, were reported in the *Financial World,* January 22, 1947. Of those replying to the questionnaire, 35% published interim reports in 1946, while 10% issued semi-annual or mid-year earnings statements. Half of these companies mailed the report with the dividend check. 87% of the interim reports were printed, 13% were machine-duplicated. Of the printed statements, 60% were four-page leaflets, 21% were two-page single sheets, and the balance were six-page folders and eight-, twelve- and sixteen-page booklets.

TYPES OF INTERIM REPORTS

Most interim reports fall into the first three of the following four types:

1. A bare financial statement or a letter summarizing results of operations for the period.
2. A financial report with a brief transmittal letter.
3. A financial report with a letter commenting upon the results of operations as reflected in the statements.
4. A news letter or other stockholder publication that includes the interim financial statement or report among other news items.

The news-letter type of interim report is by far the most effective because: (1) It can be made interesting and readable, (2) it can cover any aspect of the business that stockholders ought to or might want to know about, (3) the tone can be intimate, informal and direct, (4) it can be made attractive in appearance with a good title page, legible type and occasional illustrations. Ideas for this type of interim report are given in the discussion of stockholder publications, at page 244.

FINANCIAL INFORMATION IN THE INTERIM REPORT

The financial information given in the interim reports cannot, of course, be as complete and accurate as an audited annual statement. As an interim statement, it is necessarily subject to year-end adjustments. Nevertheless, with proper warning to the stockholders that it should not be taken as a prediction for the year or that prediction on the basis of the interim statement is inadvisable because of the seasonal nature of the business, there is no reason why detailed income statements and balance sheets should not be given out. A number of companies, in fact, do present semi-annual statements that are quite as complete as their annual statements.

On the other hand, some companies that make good use of the interim report from the standpoint of presenting a human interest story of developments in the company, give a meagre financial report. They limit the information to net sales, net income before taxes, taxes, net income after taxes and net income per share.

Comparative data should always be presented with whatever financial summary is given. A minimum would be comparison with the corresponding period of the preceding year. In second-quarter reports, in addition to quarterly comparisons with the preceding year, six-months comparisons should be given. And in third-quarter reports, in addition to quarterly comparisons, nine-months comparisons should be added.

HOW THE INTERIM REPORT IS PREPARED AND DISTRIBUTED

The responsibility for preparing the financial data for the interim report usually rests with the corporate treasurer or other accounting officer. Other aspects of the report are handled by whoever is in charge of stockholder relations.

Distribution is generally made to the same people who get the annual report.

FROM QUARTERLY STATEMENT TO MONTHLY REPORT

For several reasons, it may be impractical to distribute financial statements to stockholders oftener than once every three months. Even if they cannot always be accompanied by formal statements, however, there is much to be said in favor of issuing monthly a "business report" to stockholders on the company's progress, apart from such house organs as they may receive. This practice contributes to the stockholder's feeling that he is a part-owner, receiving businesslike reports from his managers at regular, fairly frequent intervals. Spacing these reports no more than a month apart preserves a continuity of interest that is lost when reports are submitted four times a year or even less frequently. Conditions change so rapidly that a quarterly report is often inadequate to keep stockholders up to date on major developments. On the other hand, if there is not sufficient change or development to assure an interesting report every month, the quarterly interim report may be adequate.

DIVIDEND ENCLOSURES

The dividend envelope goes by first class mail. It can carry more than the dividend check and the usual formal notice of payment and change-of-address blank without extra cost. It is therefore an excellent means of getting information to stockholders. Furthermore, the envelope is certain to be opened, since it is awaited. The enclosure is bound to be seen. Whether or not it will be taken out and read depends upon whether it attracts attention and holds interest.

In spite of this double advantage that dividend enclosures offer, many corporations fail to use them—a sheer waste of opportunity. Studies show that only one out of two companies that pay dividends, regularly enclose messages to their stockholders. One out of four that don't send regular enclosures, do so occasionally. The dividend enclosure should be part of every well-rounded stockholder-relations program.

TYPES OF DIVIDEND ENCLOSURES

Roughly, dividend enclosures fall into the following groups—excluding interim reports and reports on the annual meeting of stockholders, mentioned at page 241.

1. Stockholder news letters or miniature magazines. These follow more or less the same pattern in each issue. They contain a number of brief items, photographs and feature articles. Any subject that would fit into the annual report is suitable for the news letter or magazine. Many subjects that lend themselves to detailed treatment and that would be too minute for the annual report, may be used for the news letter or magazine.

2. A folder devoted to a single subject. Choice of subject and style of treatment are important. If the folder can be read quickly and offers information that makes good conversation, stockholders will get into the habit of extracting

the enclosure and reading it. Some subjects are suggested below.

3. A folder announcing a special offer to stockholders. This method of improving stockholder relations is discussed at page 246.

4. Reprint of a public address delivered by an officer or board member of the company. These are usually the least attractive of the dividend enclosures, for they are solidly printed, without headings or subdivisions. A stockholder must be won by the title to do more than look at the enclosure. However, with improvement in the physical presentation, such an enclosure may help in developing a kinship with the company among the stockholders.

5. Special announcements of changes in financial structure, such as the company's action in issuing new stock, redeeming bonds, increasing indebtedness, splitting outstanding stock and the like.

QUALITIES OF DIVIDEND ENCLOSURES

We have already referred to one type of dividend enclosure—the interim report. Excluding this, dividend enclosures are generally colorful, interesting and attractive. It is hard to make a financial report lively and crisp, but other subjects may be selected for their human interest, drama or excitement. Also, as long as a report is financial, the men of figures have a hand in it—and that hand weighs heavily on the printed page. With the accountants by-passed, the folder can reflect the lighter touch of the advertising and public-relations people.

Companies that want to keep their dividend enclosures light, may enclose financial statements on a separate slip. This is done occasionally.

Dividend enclosures are usually illustrated, frequently in color, and are brief. Their size is determined by the dividend envelope. Four- and six-page folders that fit into a Number-10 envelope are customary. A single folded sheet, die-cut with an elongated oval or square to fit the window envelope, is a common form. The dividend check is inserted within the folder.

IDEAS FOR DIVIDEND ENCLOSURE FOLDERS

It would be impossible to offer an exhaustive list of subjects suitable for dividend-enclosure folders. Here are some ideas that have made good enclosures:

1. An educational subject. Every manufacturing, mining and processing company has a product story that makes good reading. For example, "How Oil Is Discovered," written up briefly in Lion Oil Company's dividend enclosures; "Tailor-Made Weather," the story of air-conditioning, as told in a Westinghouse Stockholders' Quarterly; "Up-to-date with Jet Propulsion," a General Electric pamphlet.
2. Improvements in the company's product.
3. Advances made in research.
4. How the company is helping related industries.
5. How the company is contributing to international welfare.
6. Additions to production capacity.
7. The company's training program to develop leadership and organization teamwork.
8. Growth of a particular division of the company.
9. Standards of the company's products, and how they are maintained.
10. Brief history of the company, with early and late photographs.
11. Basic policies on which the company operates.
12. Table of years in which various trademarked products were introduced.
13. Foreign trade.
14. Who are the directors and officers.
15. Announcements of anything new in the business, such as acquisition of a new company, opening of new plants, branches or offices, new advertising campaigns or radio programs, changes in packaging of the company's products and the like.
16. A question-and-answer pamphlet clarifying misunderstandings about a technical aspect of the company's product.

ANNUAL MEETINGS

A company can make the following efforts to improve stockholder relations through the annual meeting:

1. In the notice of the meeting and in the literature going to stockholders about the same time, urge the stockholders to attend. For example, include some friendly persuasion in

the annual report mailed prior to the meeting.

2. Make it easy for stockholders to attend by offering free transportation from a certain place —say, the company's office—to the place of meeting, if it is to be held elsewhere.
3. Conduct the meeting in an informal way so that the stockholders feel a human relationship between themselves and the officers at the meeting. This feeling can be created, however, only if the officers present actually feel a warmth and friendliness toward the stockholders. Insincerity and superficiality are easily recognized. If friendliness is not faked, it will be reflected in personal chats with stockholders and in sympathetic responses to their questions.
4. Give stockholders a full opportunity to be heard and to discuss matters.
5. If a minority group is likely to raise questions or if a corporation policy is open to misunderstanding, management should have all the facts at hand to support its position. Facsimiles or originals of actual accounts and documents are often effective in convincing wavering stockholders.
6. Use films, exhibits and shows to stimulate interest in the meeting. The preparation of a film version of the annual report is discussed at page 238.
7. Offer refreshments, samples of the company's product, if suitable, tours of the company and other features to make the occasion interesting, informative, pleasant and friendly.
8. Send stockholders who have not been present personally, a report of the meeting. This subject is discussed at page 241.

SHALL SPECIAL EFFORTS BE PERSISTENT?

Stockholder attendance will probably always remain small, in spite of special efforts to get the owners to the annual meeting. In the Verne Burnett study of stockholder-relations activities, referred to at page 230, the one hundred companies participating in the survey indicated that the number of stockholders attending range from "1 to 10" up to "500 to 600," with from "20 to 50" mentioned most frequently. Of these companies, eight had made special efforts to stimulate interest in the meeting. The reason for small attendance is obvious and insurmountable: The time and place are usually inconvenient for most stockholders.

Some companies are guided by increased attendance and more active participation in judging the effectiveness of their efforts to stimulate interest in stockholders' meetings. When such companies find that no stockholder is interested in going through the plant or in seeing a company film, they never again make the offer. On the other hand, many companies continue their efforts under such circumstances, in the belief that confidence in the company is developed from the very eagerness of the management to keep the stockholders informed.

REGIONAL MEETINGS

Regional meetings of stockholders are informal meetings held in major cities of the country, selected because they will draw the largest numbers of stockholders.

James F. Bell, Chairman of the Board of General Mills, Inc., introduced this type of meeting in 1939. The meetings were repeated with larger attendance in 1940 and 1941. They were discontinued for the duration of the war and resumed after the war, when regional meetings were held in seven cities.

No corporate business is transacted at a regional meeting, but in every other respect it serves the same purpose as the annual stockholders' meeting. Thus, the affairs of the business are discussed in detail, many questions are asked and answered, and highlights of the annual report are explained. The following agenda for a typical regional meeting of General Mills shows how it is planned to get the maximum of public-relations benefit from the effort and to help the stockholders assume the responsibilities that the company feels go with stock ownership. These duties are described at page 232.

1. *12.30 P.M.*—Press luncheon at hotel.
2. Cocktails before luncheon.
3. Informal discussion with the chairman before and during luncheon.
4. Apple PYEQUICK served for (or with) dessert. PYEQUICK package displayed on table.
5. Cigars.
6. Showing of stockholder movie following luncheon.
7. Tru-Heat iron display in room.

8. *4.00 P.M.*—Stockholders begin assembling.
9. Personal greeting of stockholders by chairman at door.
10. Division president opens meeting and introduces chairman of board.
11. Brief address by the chairman of the board.
12. Showing of stockholder movie.
13. Question-and-answer session, with division president and other available executives participating.
14. Brief demonstrations of Apple PYEQUICK and Tru-Heat iron.
15. Informal mingling with stockholders during refreshment period.
16. Company breakfast cereals, Apple PYEQUICK and coffee served.
17. A dozen colorful panel displays. (In previous years, large product displays in the meeting rooms had been used.)
18. Betty Crocker booklets and other General Mills literature available near the doors.

Ample publicity is given to regional meetings. News releases, pictures and background material are handed out at the press luncheons, to which financial editors, some food editors, home appliance editors and bankers are invited.

GETTING STOCKHOLDERS TO ATTEND REGIONAL MEETINGS

To get stockholders to attend the regional meetings, a planned effort must be made. General Mills, Inc., gets a remarkably large attendance at its regional meetings—estimated at 3000 people, of whom more than 2000 are stockholders—because of the number of notices it sends to stockholders concerning the meeting. Personal invitations are sent by the chairman of the board to all stockholders in the areas where meetings are scheduled. A sample of a stockholder's invitation is reproduced below. A reminder folder is mailed to reach stockholders five days before the meeting. This is followed by a telephone call a day or two before the meeting. The local offices of the company assist in making the phone calls.

A regional-meetings project usually takes the time of a number of key people who must be present, and involves expense and trouble. For that reason, not many companies have adopted the idea. However, hundreds of requests have been received by General Mills from business concerns seeking information on this technique in stockholder relations, showing the strong appeal it has for companies that are public-relations minded.

General Mills, Inc.

400 Second Avenue South

Executive Offices
James F. Bell

Minneapolis 1, Minn.
November 4, 1946

I am delighted to tell you that we are resuming our informal stockholders' meetings which we held prior to the war. These intimate gatherings proved such a source of inspiration to our management that I hope their resumption will be equally welcomed by the owners of the business.

These are very difficult and uncertain times both for management and for investors. Ownership carries with it an increasing sense of responsibility, and I am most hopeful that these circumstances will prompt you to devote a few minutes of your time to attending the meeting. As your representatives, the Board of Directors need your support. We want to tell you about your company. We want an opportunity to discuss its affairs with you, to answer any questions you may have. Do give us some of your thoughts in respect to these on the enclosed card—and send it to me either signed or unsigned. Or, hand in the card at the time of the meeting if you prefer.

We have a new motion picture in full color to give you many interesting details of the assets you own, the products of the company, and the story of management's stewardship. The first postwar product to come from our food research laboratories will be served by members of Betty Crocker's staff; and we will also have a demonstration of the new General Mills Tru-Heat electric iron.

Please do make an effort to come. The meeting will be held in Buffalo at the Hotel Statler on Monday, November 18, at 4:00 P.M. Make a note of it so that you won't forget it. Come and bring any friends you desire. I am looking forward to renewing our acquaintance.

Sincerely,

Chairman of the Board

JFB/m
Enc. 2

P.S. Please return the enclosed postcard so that we may know how many to expect at the meeting.

Dear Mr. Bell:

I shall be happy to meet with you at the Ambassador Hotel, New York City, on Thursday, November 21, at 4:00 p.m.

I shall bring with me __________ guests.

Very truly yours,

____

(Address) ______________________________

(City) ______________________________

Postcard Acceptance of Invitation to Regional Meeting

The postcard contained space for suggested subjects or questions for discussion at the informal stockholders' meeting.

Pepsi-Cola Company calls its regional meetings "Pepsi-Cola Family Parties." A formal invitation, as illustrated, is sent to the stockholders, with a business reply postcard enclosed.

The President and Officers

of your

Pepsi-Cola Company

cordially invite you to a

"PEPSI-COLA FAMILY PARTY"

to meet neighboring stockholders

and to

learn about your Company

R. S. V. P.
Walter S. Mack, Jr., Pres.
Pepsi-Cola Company
Long Island City 1, N. Y.

Refreshments

Formal Invitation

The Standard Oil Company (New Jersey) has held informal meetings of large investors, such as life insurance companies and trust officers. The penetrating questions asked at these meetings offer an opportunity to reveal the latest company developments. The meetings help the company retain and build goodwill among important financial interests.

FILM VERSIONS OF ANNUAL REPORTS

Several companies have put their annual reports into motion-picture form for presentation to stockholders at annual and regional meetings and for use thereafter in connection with their public-relations programs. Some of these companies had previous experience in using films for training and educational purposes and therefore knew something of how to proceed in getting the film version of the annual report produced. They had a satisfactory relationship with a motion-picture producer and knew some of the problems involved in preparing and showing a film. In the following paragraphs an explanation of how annual-report films are produced is given to enlighten a company that has never before used films for any purpose.

IMPORTANCE OF THE PRODUCER

An annual report on film is a public document. For this reason the film must be of the very best quality. Whether they realize it or not, the audience has been conditioned by attendance at their local theaters, and the company's film will be judged on a "Hollywood" basis. The presentation of the story, pictography, editing, sound track, special effects and over-all technique will all be compared in the audience mind with theatrical standards. The company must therefore choose a reputable producer with the equipment and experience necessary for the production of a motion picture that can stand this comparison on a favorable basis.

In the production of an annual-report film, as in the production of the report itself, there is a definite deadline. The picture must be ready for the annual meeting. Again as in the case of the annual report, the facts and figures that will be used in the picture are not ready until a relatively short time before the date of the meeting. It is necessary, therefore, to have a producer who can move very quickly when the facts are released. A large producer with extensive production facilities can telescope the various production steps without sacrifice of quality. A small operator, who may even have to rent production facilities, may not be able to command his own production schedules and fit the various pieces together within the limited time allowed for production.

WHAT SHOULD BE FILMED

The film version of the annual report will parallel to some extent the printed annual report, since the company shows the film for the same reason that it mails the report—to acquaint the audience with what was accomplished during the year. Thus, it will deal with production, sales, labor relations, research, new properties acquired, earnings, where the money went, future outlook, the balance sheet, the company's standing in its industry, promotion and advertising campaigns and any other activity that may go on in the organization. The selection of subjects is determined by the company alone or in conference with the producer.

THE PRODUCTION PROCEDURE

The producer of the film supplies a qualified picture-script writer, who first studies the whole situation and does whatever editorial research may be necessary and then prepares a content outline. This outline briefs the contents of the picture and suggests the treatment to be given. In visualizing such abstract aspects of a business as profits, financial condition, depreciation and the like, considerable ingenuity is, of course, required.

Early in the planning of the picture, a system is established for checking the outline and the scenario so that the film will be accurate and complete and will convey what the company wants conveyed. A competent producer will be very careful to see that the system of checking is thorough, makes the least demands on the fewest people in the company and does not retard production.

Upon approval of the outline, the script writer prepares a detailed scenario of specifications. Once the scenario is approved by the company, actual production proceeds as with any other film.

SHOWING THE FILM

The film should be shown only under the most ideal conditions obtainable. A 35-mm. print with arc projection by a professional operator offers excellent results. The meeting must, of course, be held in a suitable location to permit this projection. The booklet, entitled *How to Insure a Successful Film Showing,* published by the Motion Picture Bureau of the Aetna Life Affiliated Companies, 151 Farmington Avenue, Hartford 15, Conn., should be read by those responsible for showing the annual report film.

EXAMPLES OF ANNUAL REPORT FILMS

In the following paragraphs, a brief account is given of the experiences of several companies in producing and showing their annual-report films.

General Mills, Inc. In 1939, when this company first conceived the idea of taking the annual meetings to its owners throughout the country (see page 236, where regional meetings are discussed) , it used a series of slides to show the stockholders how their money was used, what facilities they owned, what products were manufactured, what services were rendered, and what the returns were on their investment. In 1940, it used a thirty-minute, sound motion picture called *The Year's Work.* The film contained some sequences in animation explaining the balance sheet. In 1941, it made a film entirely in animation. During the war years it held no regional meetings and made no film. When General Mills resumed regional meetings in 1946, it developed a twenty-four-minute, 16-mm., sound motion picture in full color entitled *Operation '46,* for the stockholders' meetings. Employees also were shown the film.

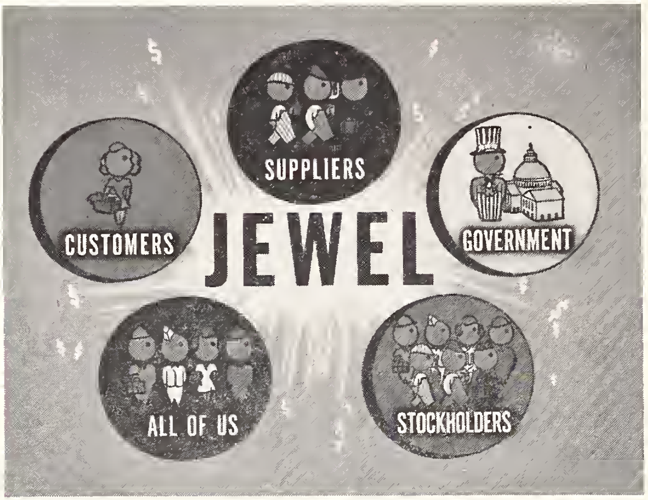
This picture brings to life the year's financial statement. Plants, products, services, personnel, research and future plans are all dramatically presented. Chairman James F. Bell explains how General Mills' $298,000,000 sales income was utilized for raw materials, wages, taxes and other costs with an ultimate profit remaining of two and one-half cents on each dollar of sales. The film clearly shows the relationship of owners, management, employees and farmers working together for the common goal of quality goods and services, with a reasonable return to each of the four groups.

Operation '46 was produced by the Calvin Company, Kansas City, under the supervision of the General Mills' film department. The script was prepared under the supervision of the film department and the public relations department. The controller, president and chairman of the board all had a hand in determining the contents of the film.

In a brief circular describing the film, General Mills explains that bookings are available without charge to organizations and schools. Distribution is handled by the General Mills Film Library, Minneapolis 1, Minn.

U. S. Steel Corporation. This company prepared a film version of its 1944 annual report for the 1945 annual meeting of stockholders. The contents of the film were determined by the public relations department, which consulted with the chairman of the board as to the general material in the report and with the finance department of the corporation as to the statistical and financial material. The final script was prepared by the Jam Handy Organization, Detroit, Michigan, producers of the picture.

The film, called *Behind the Annual Report,* runs for fifteen minutes. It uses animated curves to tell the financial story. In one sequence, five white-hot steel ingots represent money the corporation received for the years 1940 through 1944. Animated divisions of the ingots show the various items of cost in each of these years—a film interpretation of the "Income-Outgo" charts described at page 71. The portion of the report that deals with stockholders is portrayed as a parade of investors from all classes of life.



Courtesy, Jewel Tea Company, Inc.

Fig. 153

The picture, in addition to being shown at the stockholders' meeting, has also been shown widely in schools, clubs, banks and before other groups and organizations interested in the financial aspects of American business. It has been used, as well, in training employees, and is still being shown by request in schools and to accounting groups.

Jewel Tea Co., Inc. This company has used a twelve-minute, slide film with sixty-three slides, called *The Story of 1946*, to show the year's accomplishments. In planning and preparing the film, the company kept its employees in mind as one audience for whom the report was to have special significance. It concentrated upon selecting the most pertinent and simple facts and upon avoiding too much detail. The year had shown good results for the company, its employees and its stockholders, and the company tried to say exactly that. In doing so, it indirectly conveyed the impression that the gross receipts of the business had been fairly distributed. One of the slide films is reproduced above. The cartoon characters are similar to those used by this company in a chart of distribution of the sales dollar in its printed annual report.

Two of the company's men worked directly with the producer, Sarra, Inc., Chicago, in making arrangements to meet production deadlines and supply materials when needed. In addition, there was an over-all committee of about ten company executives and four representatives of the producing company who passed first upon the theme and general approach and later upon the specific material and language used.

The slide film was shown to all employees and has been used by the employment department in recruiting new employees from among graduating classes. A copy of it is kept at all the major branches of the business for periodic showings to new employees. Other copies are available for loan to educational institutions and businesses that are interested in seeing it.

Penn Mutual Life Insurance Company. When the Penn Mutual Life Insurance Company decided that a sound-film version of its centennial report would be the best way of presenting the company's story before regional meetings of policyowners, it began by making a brief outline of what the motion picture should contain. It then sought a producer. After that, it made a much more detailed outline of the technical material it wanted included in the motion picture as well as an outline of the historical and human values it wished to portray.

A committee of officers held several conferences with the producer, Paul J. Fennell Company, Hollywood, on the mechanical and contents aspects of the problem. The producer first prepared a script, which was checked and corrected by the company, and then a "story board" presentation. This is a series of still pictures that show how the story will develop. This, too, was approved with minor corrections. The finished drawings were then started and the shooting of the picture began. Two officers of the company went to the coast to approve the rushes and the remainder of the pictures in still form. The final product was sent to the company's office in Philadelphia for approval.

The film, entitled *100 Years of Security,* runs eighteen minutes. Its technique consists of a combination of commercial art and animation, resulting in animated commercial art rather than cartoons. A character, "Charlie Chart," helps bring the cold facts to life.

The picture was shown by the company's general agents at regional meetings in ninety cities around the country in 1947. In addition, it has been shown in plants where the insurance company has salary-savings contracts or pension trusts, to service clubs such as the Kiwanis and Rotary, to schools, public relations groups, personnel and industrial relations groups, individuals interested in audio-visual education and others.

TELEVISION VERSION OF ANNUAL REPORTS

The first annual report ever to be presented over television was *Report for '47* of the Union Oil Company of California, which was televised in nine major cities throughout the country on the evening of the day of the 1948 annual stockholders' meeting. The television version of the annual report was first made in the form of a motion picture. The film was shown at the stockholders' meeting and to all of the Company's personnel. It was also made available for showing to interested people in all parts of the country.

The script for the film was prepared by the Public Relations Department of the company in coöperation with all the departments of the company whose activities were covered by the report. The film used some of the material from the annual report and was, for the most part, based upon the section entitled "Earnings and Expenditures." It was narrated by the president of the company and included department reports from other members of the Executive Committee.

REPORTS ON STOCKHOLDERS' MEETINGS

In the past few years more and more companies have adopted the practice of sending a report of the annual meeting—or special stockholders' meeting, if there should be one—to stockholders for the benefit of absentees. The practice, once begun, is invariably continued, for it usually receives the enthusiastic approval of the stockholders.

The styles or types of reports on annual meetings used by the various companies are:

1. Letter.
2. Summary of proceedings.
3. Chairman's remarks or president's report.
4. Minutes of meeting.
5. Stenographic report.
6. Pictorial report.

Each type is discussed below.

LETTER FORM OF REPORT

The simplest form of report of annual meeting is a letter to stockholders telling them what happened at the meeting. The letter may be sent over the president's or secretary's facsimile signature or may be printed or reproduced by a less expensive process. This type is particularly suitable where there has been little discussion at the meeting but where some important corporate matter was voted upon, such as a split-up of the capital stock. The letter is a means of informing the stockholders of the action and how it affects them. The letter would also show the results of the election for directors.

SUMMARY OF PROCEEDINGS

This method of reporting on an annual meeting offers a summary of factual matters of time, place and attendance, the president's or chairman's statement, the resolutions passed or defeated, the vote count and any discussion.

The best reports of this type are broken up into small paragraphs with headings, and enlivened by a few direct quotations. An excerpt from a summary of an annual meeting of stockholders of The Budd Company illustrates the method.

> ### INVENTORIES
>
> The same stockholder then asked if there were signs of a more balanced inventory. The President replied that the inventory is not considered unbalanced. While inventories of some articles were larger than the Company wished, that condition was due to the unavailability of parts to complete certain products. He added that it was his belief that inventories

would decrease over the next four months. This stockholder then inquired why there was a deficit in 1946 when the Company had such a big backlog.

"Last year's losses have no relation to the backlog," Mr. Budd answered. "They were primarily the result of disorganized conditions in our own business, in our suppliers' business, and in our customers' business—the steel strikes, coal strikes, and other interferences with production. We had a new plant to start and five or six thousand ex-service men to reemploy. We had to have more machinery and set up new operations. We have not taken any business on which we do not expect to make a profit."

If a company plans to distribute a summarized report, a competent member of the public-relations staff should cover the meeting. Many meetings are busy, interesting sessions with considerable give-and-take between stockholders and management. Wherever possible, stockholders should receive a colorful, fast-moving and highly readable account of what took place at the meeting.

CHAIRMAN'S REMARKS OR PRESIDENT'S REPORT

A number of companies send stockholders a copy of the chairman's or president's address at the annual meeting of stockholders. Although such reports contain useful information, they usually lack reader appeal. Unless the remarks are expressed in an easy-to-read style and are broken up into short paragraphs with appropriate headings, there is great likelihood that the statement will not be read.

A variation of this method is to accompany the statement with a brief letter giving a résumé of what happened at the meeting.

MINUTES OF MEETING

Under this method, the minutes of the meeting as prepared for the corporate record are reproduced in pamphlet form and sent to the stockholders. The minutes usually give the results of a vote without the arguments pro and con. They tend to emphasize the management's viewpoint, and therefore are less effective in building good feeling among recipients of the report than an edited stenographic report, such as is described below.

To illustrate the shortcomings of this method, an example from an actual report of proceedings is cited. A stockholder opposed a resolution increasing the fee paid to directors for attending meetings. In the minutes her reasons were reported as follows:

> Miss —— of —— spoke in opposition to the resolution ratifying the increase in the basis of directors' fees, on the grounds that the directors' self interest should impel them to attend directors' meetings without compensation, and that an increase from the general basis of $20 to $50 for each meeting which the directors attend smacks of hidden taxes and "New Dealism."

The president refuted her arguments; the minutes quoted his reply verbatim. Since only the gist of the stockholder's remarks had been included, the president's answer should also have been summarized. There would then be no danger that stockholders reading the report might consider it biased.

One company that uses the minutes form of reporting, collates the questions asked by the stockholders and the chairman's replies in summary form on the last two pages of the report.

STENOGRAPHIC REPORT

This type of report is without doubt the most effective way of informing stockholders of what went on at an annual meeting. It was first used by The Standard Oil Company (New Jersey) in 1941 as an experiment in stockholder relations. The stenographic report of the full proceedings, including questions and answers presented during the discussion, was printed in a company publication that was mailed semi-annually to stockholders. The report received such enthusiastic response that it was made a regular feature of the company's stockholder-relations program. It is sent out each year independently of other company literature. An excerpt from a recent stenographic report is reproduced to show the style.

> What dividend can we expect to get this year as compared to last year?
>
> *The President:* At the last dividend meeting of the Board of Directors, a dividend was declared of $1.50 per share for the first half of this year.
>
> I assure you that no Director here knows what they are going to vote to pay next time. I think the management looks at it this way: we are in a business with an expanding frontier, so to speak, and the policy that we have followed is to plow back into the business a good part of the money earned. I believe this has been to the interest of the stockholders.
>
> We realize that the stockholder is naturally in-

terested in getting a fair return. As a stockholder, I assure you that I am. I think that we shall continue to pay out to the stockholders the largest amount we can, at the same time keeping the Company in a good liquid position where it can take opportunities that arise in an expanding industry.

At the present time, the $1.50 represents action for the first half of the year. Whether we shall be able to repeat that dividend, or enlarge it or decrease it, will depend a good deal on the last half. As I indicated earlier, in my judgment, we are looking forward to a rather good second half-year.

Same Stockholder: That sounds very encouraging. We appreciated it when the company advanced the dividend date from near the end of the month so that now we get it on the 12th. I should like to submit for consideration by the management the question of whether we could have quarterly dividends instead of semi-annual.

The President: I am glad you raised that question. I have been urging that myself, but the other Directors have beaten my ears down on this issue every time I raise it.

(Laughter.)

Same Stockholder: Don't you think we might put that on the ballot next year and get an expression of opinion?

Another Stockholder: May I suggest a vote on that right now? I think that is a very good question.

The secretary's department is responsible for the preparation of the report, but the public relations department usually does the actual work. Arrangements are made with a reporting service for two reporters to attend the meeting and report it verbatim. A stenographer or other employee of the company sits near the reporters to coach them on the identity of speakers. Arrangements are also made for photographers to attend the meeting, and shots are included in the report.

The transcript of the stenographic record is sent to the secretary, who turns it over to the public relations department. The record is edited slightly for conciseness and to eliminate unessential matter. As both officers and stockholders make extemporaneous remarks during the question and answer periods, some editing for grammatical expression and clarity is always necessary. In the opinion of the Standard Oil Company (New Jersey) management, it is best to omit the names of the stockholders and merely report that the remarks are from a stockholder.

A short covering letter from the chairman of the board or the president precedes the stenographic report. This usually refers to the purpose of the report, the number of stockholders present and the amount of shares represented in person or by proxy at the meeting.

PICTORIAL REPORT

Monsanto Chemical Company published a pictorial report of an annual meeting, consisting of twenty-five pages and front and back cover. It began with this brief explanation on the inside of the front cover:

> The stockholders of Monsanto Chemical Company at their annual meeting on March 26, 1946, were presented with the facts concerning this organization's stewardship during 1945.
>
> Profits, expenditures, new developments, plans for the future, employe problems, even discouragements, were presented in executive reports, graphs, and demonstrations.
>
> In this book of three speeches and many pictures, the meeting is pictorially reported to you—a stockholder.

The responsibility for the preparation of this report usually rests with the public relations department. The contents are determined by the executive in charge of preparing for the annual meeting. The public relations department plans the layout on the basis of the executive reports and demonstrations to be presented at the meeting. It also prepares all copy with the exception of the speeches by executives. The treasurer or appointed subordinate checks any figures in the report. A high-ranking executive gives the final approval of copy and layout.

A report of this nature must be planned in conjunction with the annual report to stockholders, because two elaborate, illustrated reports would be wasteful and would evoke criticism. The following announcement in the annual report to stockholders explains how the two reports supplement each other:

> Following our custom of recent years, this report is confined to a financial review of 1945. A comprehensive report on all other phases of the Company's operations will be made at the annual meeting of shareholders in St. Louis on March 26. At this meeting, the Company's officers will review the outlook for the future and other points believed to be of interest to the owners of the Company. An account of the meeting will be mailed to shareholders who are unable to attend.

Monsanto's annual report is well designed and is just what it purports to be—a financial review. At the annual meeting, the full story of the company's activities is told in talks, charts, graphs and pictures. The pictorial report of the annual meeting tells the story to absent stockholders.

PREPARATION OF REPORTS ON STOCKHOLDERS' MEETINGS

As a rule, there is no day-to-day schedule prepared for producing the report of an annual meeting, as there must be for the annual report. It should, however, be prepared expeditiously and distributed as soon as possible after the meeting. In many cases, there is a lapse of four to six weeks between the meeting and the mailing date. This period is too long.

As with the annual report, proofs of the report on a stockholders' meeting are passed around among the directors, officers and legal department for review. Each person receiving a set of proofs is asked to indicate corrections and comments, sign his initials and return the proofs to the individual who is responsible for putting out the report. Disagreements over changes or corrections are ironed out in conference.

DISTRIBUTION OF REPORT ON STOCKHOLDERS' MEETING

The reports, although planned primarily for stockholders who are unable to attend the meeting, are sent to all stockholders. They are not, as a rule, distributed to employees. Some companies have furnished college students taking courses in commerce with copies of their reports on annual meetings as practical demonstrations of corporate procedure. One company has distributed as many as 10,000 copies annually to students.

The following distribution methods have been used:

1. As an enclosure with a dividend.
2. As a separate mailing.
3. As part of interim reports or regular literature going to stockholders. For example, *G F Stockholder News* (General Foods Corporation) has an annual-meeting edition. Consolidated Edison Company of New York, Inc., includes its report on the annual meeting of stockholders in its *News and Views for Stockholders.*

SPECIAL LETTERS TO STOCKHOLDERS

The special letters referred to here are voluntary communications mailed by management to inform stockholders of developments that concern their interests. They do not include official letters sent to obtain stockholder consents, or notices, mailed to meet some charter, statutory or by-law requirement. The special letter is used by more companies than any other type of stockholder communication, except the annual report, interim report and dividend enclosure.

Here are some of the events that may call for a special message to the stockholders:

1. A strike or other development that has received unfavorable public notice. The company uses the special letter to give the stockholders the facts and to explain its position and policy.
2. A catastrophe at one of the plants.
3. Pending legislation or political action that directly affects the company's prospects. The company can make a direct appeal to stockholders to coöperate in opposing or supporting the proposed measure. Harold S. Sutton, Treasurer of Consolidated Edison Company, in his sparkling address at a forum on management-stockholder relations referred to at page 230, pointed out that back in 1935, when the drastic holding-company bill was before Congress, one of the large, national public-utility holding companies took great pains to apprise its stockholders of the threat to their investments. As nearly as the company could find out, only about 1 in 70 stockholders took the trouble to write their Representatives in Washington. And of those who did write, a few actually favored the legislation!
4. International events that touch the company's investments abroad or its foreign trade.
5. The launching of a new and extensive advertising campaign, radio program or other public-reaching activity.

Such letters are, invariably, printed or processed letters on the company's letterhead or on "Office of the President" stationery, with facsimile signature. They should be kept short—not more than a page long. If the story requires more space, a folder or booklet may accompany the letter.

STOCKHOLDER MAGAZINES

Any regular publication for stockholders that appears under an established title and format is, for purposes of this discussion, classed as a stockholder magazine. The fact that the publication may be enclosed with a dividend does not affect the classification, for it would be sent out whether the dividend was mailed or not.

The great advantage of a regular, stockholder publication is its adaptability for any type of message that the company wants to send its stockholders. News items, educational matter, periodic progress reports, letters from stockholders answered by the company officers, product facts, photographs of regional meetings of stockholders, reports of stockholders' meetings—in fact, any subject of interest to the stockholders can be covered in the stockholder house organ.

General Foods Corporation's *G F Stockholder News* is an outstanding example of this type of communication. It was started as a miniature tabloid in 1937. Today it is the mainstay of GF's broad stockholder-relations program. It is used for interim financial reports and for reporting what transpires at the stockholders' meetings. At quarterly dividend dates, it is produced in miniature form (6″ × 8″), is marked "Financial Edition" because it contains the interim report and is mailed as a dividend enclosure—a postage-saving expedient. At other times, it is magazine size (8½″ × 11½″) and is labeled "Home Edition." Each issue, whether full size or miniature, contains a final page with recipes and other "Homemaker News." The magazine is always amply illustrated and interestingly laid out. No two issues are exactly alike in type of stories or arrangement.

Other effective stockholder magazines are:

- *Stockholder News,* Scott Paper Company.
- *Stockholder News,* Johns-Manville Corporation.
- *News & Views for Stockholders,* Consolidated Edison Company of N. Y.
- *Horizons,* General Mills, Inc.
- *Stockholders' Bulletin,* The Borden Company.

A company may publish an unusually good employees' magazine, or its stockholder list may not be long enough to warrant publishing a separate organ. Under these and other circumstances, several companies have found a well-prepared employee publication also effective for regular or occasional distribution to stockholders. Sometimes a special stockholders' edition of the company paper is used in place of a stockholder magazine.

COMPANY AND INSTITUTIONAL BOOKLETS

One type of company booklet that is sent to stockholders has already been referred to—the special illustrated booklet that accompanies the annual report. See page 18.

Another type is a story about the company, its products, services, financial structure, policies and the like. The publication may be sent to new stockholders along with a welcoming letter or it may be offered in the welcoming letter to stockholders who return the enclosed prepaid postcard asking for it. Consolidated Edison Company uses the latter plan in distributing its forty-eight-page, 8¾″ × 12″, illustrated booklet entitled *Serving New York.* This beautiful brochure, printed in color, uses charts, graphs, photographs, maps and other "annual report" techniques to tell about the company. It gives financial and statistical information for fifteen years back. According to Harold S. Sutton, Treasurer of the company, less than half of the new stockholders take the trouble to sign the post-paid card and drop it in the mail box. This is just another illustration of the point made earlier in this chapter—because stockholders are people, you can only expect them to act like people and to neglect their own best interests at times.

American Telephone and Telegraph Company's *Facts About the Bell System* is sent to all new stockholders except corporations, banks and trust companies, brokers, stockholders who have reopened accounts within two years and stockholders whose ownership is not completely new. For example, if there is a transfer of stock from an individual to a joint account and that individual is one of the joint-holders, the booklet is not sent. A.T.&T. ordinarily revises this booklet each year after the Company's annual report has been issued.

Armstrong Cork Company sends an illustrated booklet entitled *Partners in Business* to new stockholders at the time of their first purchase of stock. It includes general information regarding the company, its history, policy and products. The booklet is revised from year to year. Old stockholders are invited in the annual report to send for the latest edition of the pamphlet.

Other booklets currently used for introducing the company to new stockholders include:

A Short Story About Standard of California.

The Story Behind a Trade-Mark, New Jersey Zinc Company.

The facts included in institutional booklets are interesting not only to new stockholders but also to employees, their families, trade and business contacts, civic leaders in the community, libraries and customers. If handled with reasonable intelligence, one booklet can bring out the points of interest to all of these groups. New Jersey Zinc's *The Story Behind a Trade-Mark* was prepared, for example, as a multi-purpose booklet.

OTHER MAILINGS TO STOCKHOLDERS

A great variety of printed material beyond the types previously discussed, is mailed to stockholders. The purpose may be to pass on information of a timely nature to the stockholders, to stimulate stockholder interest in the company or merely to acquire the goodwill of the stockholders. Some examples are listed below:

1. Articles, statements, speeches or testimony of a company officer before a Government committee on a subject affecting the industry or the company.
2. Anniversary booklets reviewing the achievements of the company during its existence.
3. Booklets and other material prepared primarily for employees, dealers or patrons.
4. The employee magazine, sent regularly or when an issue contains some information of special interest to stockholders.
5. Reprints of advertisements.
6. Calendars, diaries, maps, recipes, patterns or other "give-aways." Some of these are mailed with the annual report.
7. New product announcements to get stockholders to look for their appearance on retail counters.

GIFTS AND SPECIAL OFFERS TO STOCKHOLDERS

If the company's product is adapted for household use, a sample box or package sent to new stockholders accomplishes these purposes: (1) It acquaints the stockholder with the company's products, (2) it gets his help in boosting the product, (3) it makes a possible purchaser of him, (4) it captures his goodwill. General Mills, Inc., Bristol-Meyers Company and Scott Paper Company use this technique.

McKesson-Robbins, Inc., made a timely offer of a bottle of Tartan Suntan lotion to its stockholders with its summer dividend. The dividend enclosure explaining the product, contained this statement: "Tartan is one of over 225 McKesson quality products which you can use with confidence and recommend to your friends. If you would like to try Tartan without cost or obligation, return the reply card for a full-size bottle." The reply card asked for the name and address of the stockholder and of his druggist.

When the demand for portable typewriters far exceeded production, Remington Rand allocated some of the machines for immediate delivery to stockholders and offered them to stockholders through a dividend enclosure, for a limited time.

General Foods Corporation prepared a Christmas box of its products and offered it to stockholders at a price considerably below the aggregate cost of the assembled items.

To accommodate stockholders and at the same time encourage their use of the company's products, Standard Oil Company of New Jersey sent its stockholders an application blank for an Esso credit card. This card enables the stockholders to purchase their gasoline needs on credit in the states that are served by Esso Marketers. As a further accommodation, the company arranged for honoring of Esso cards in territories not served by subsidiaries.

WELCOME LETTERS TO NEW STOCKHOLDERS

Long before corporations began to give serious attention to improving stockholder relations, some companies had adopted the practice of sending letters of welcome to new stockholders. It is one of the most satisfactory ways of establishing friendly relations from the start with the owners of the business. It affords an opportunity to show small stockholders that they get the same recognition as large ones. Companies that use the welcome letter say that they get many unsolicited letters of appreciation from stockholders, some even showing interest in the company's products. Incidentally, the letter helps check the accuracy of addresses furnished by banks and brokers for the payment of dividends.

Perhaps the only shortcoming of this approach to improving stockholder relations is that in some instances an old stockholder will get the letter. This may happen where the transfer has come about through a change of name. Or the real owner may not get the letter if the stock stands in the name of a nominee.

A few companies have felt that the benefits received do not justify the cost.

QUALITIES OF THE WELCOME LETTER

The welcome letter is a goodwill letter. It must therefore be warm, friendly, personal. A personally typed letter is warmer than a printed one, so is a processed letter with a perfectly matched fill in. A letter signed by the president, chairman of the board or other top officer makes a better impression than one signed by lesser officials.

If you plan to use a welcome letter, you will have to decide whether to write it on special letterhead, on regular letterhead or on note-sized stationery. You will want to consider whether a four-page letterhead with the letter on page one and the inside and back pages devoted to the company's business and products, will serve best. You may even think of combining a welcome letter with an institutional booklet telling more about the company. All these ideas have been used. It is difficult to say which is most effective. In choosing among these methods, have this in mind: You are sending the letter essentially to gain the friendship and confidence of the stockholder. Test whatever you say in the letter against that objective.

Here are some ideas that might be drawn upon in composing the letter:

Welcome the stockholder.
Mention the number of stockholders.
Tell him briefly about the company's dividend record.
Make a bid for his support of the product.
Point out the mutual interests of stockholders, employees, customers, dealers and management.
Offer to send him the latest copy of the annual report or any other literature designed for him.
Tell him the company wants to keep him informed.
Say how you will keep him informed.
Include timely information on company policy.
Ask him to advise you of any changes in his address.
Invite him to visit the plant.
Make him feel you will be glad to have his suggestions and comments on the company's work.

LETTERS TO STOCKHOLDERS WHO INCREASE THEIR HOLDINGS

A stockholder demonstrates his confidence in the company when he increases his holdings. A letter to such a stockholder strengthens the tie with the company. It may be brief—just enough to show that you have observed the purchase and are pleased. This is also an appropriate place to repeat your invitation to visit the plant.

REGRET LETTERS TO STOCKHOLDERS

Only about 25% of the companies that send welcome letters to new stockholders, send regret letters to those who dispose of their holdings. One reason is that such letters are troublesome to handle. A stockholder may have split his account among various members of the family or have transferred his shares to a nominee. Unless there is careful supervision, regret letters will be sent to people who have never actually parted company with the corporation. Of course, the letter can be worded to take care of the possibility of a transfer without a change of beneficial interest.

In spite of shortcomings, a company will continue to use the regret letter if it is eager to retain the friendship of departing stockholders. Some companies that sell household products or furnish a household service, for example, always send termination letters.

One large company says that in some instances the regret letter constitutes a service to its shareholders. For example, if the stockholder's certificates have been lost or stolen or pledged as security for a loan and sold erroneously, the termination letter is important news to him.

Regret letters follow this pattern:

Express regret that the stockholder's name has been removed from the stock list.
Indicate the possibility that the stockholder is still holding a beneficial interest.
Make a bid for continued friendship.
Tactfully ask the stockholder to tell why he disposed of his stock (unless the reason is personal), and enclose a reply envelope

and form on which the reason can be checked.

Offer to keep him informed about the company.

CONTACTS WITH STOCKHOLDERS THROUGH SOLICITATION OF PROXIES

Most companies go about soliciting proxies for the annual or special meetings of stockholders as though the stockholders were machines. Sometimes management is startled into the need for humanizing this contact—for example, when the proxies just trickle in and there is danger of having to postpone the meeting for lack of required representation.

One company that had to postpone a special meeting of stockholders twice for lack of sufficient proxies, tried the simple device of using colored paper and a distinctive format in its follow-up. The idea worked; the company received more than the necessary number of signed proxies three weeks before the meeting was to be held.

Your company may be sure of a quorum without the proxies of small stockholders. Nevertheless, the expenditure for the mailing of proxies must be made. Why not use it to improve stockholder relations? Ask some public-relations people for their ideas as to how to humanize the request for proxies. Changes can be made in current practices without in any way interfering with what the lawyers say are the "musts" for notices, proxies and proxy statements.

ACKNOWLEDGMENT OF PROXIES; FOLLOW-UP

Some companies feel that those who have sent in signed proxies and have in that way expressed their approval of the management, deserve an acknowledgment. This acknowledgment may be made: (1) By personal letter or postcard to individual stockholders or (b) by general acknowledgment in the report of what transpired at the meeting or in the following dividend notice, interim report or stockholder house organ.

The personal letter, of course, is most effective from the standpoint of its value as a goodwill builder. Such a letter is usually sent out after the meeting has been held, and takes the following form:

Thanks the sender for his coöperation.

Tells how many shares were represented at the meeting.

Gives some brief indication of what transpired at the meeting.

In some instances, separate acknowledgment letters are prepared for individual small stockholders, individual large stockholders, firm stockholders, and brokers and nominees who have sent in proxies.

Some companies send out follow-up letters for proxies whether or not they are in urgent need of them to establish a quorum at the meeting. A large representation at the meeting is the objective of many companies that are constantly trying to improve the relations between stockholders and management. Others follow up only individuals and firms who hold more than a certain number of shares, say 500 or 1000. Acknowledgment with thanks, after the follow-up has brought results, is a good gesture.

SURVEYS AMONG STOCKHOLDERS

Surveys among stockholders have been used to a limited extent. Most of them have dealt with the annual report. The methods of conducting such surveys and their results have been treated fully in Chapter 17.

Some companies have used their stockholder lists to obtain information on new products, proposed trade names and the like. When such surveys are made, it is possible to get personal information about stockholders that would otherwise not be obtainable. For example, a company can ask for the sex, age group and occupation of a stockholder who is giving his opinion in a new-product test, and will probably get an answer. This type of information can also be obtained in personal-interview surveys.

A company that is just instituting a program of stockholder relations would do well to make a sample survey of its stockholders every six months. In this way it can trace the effects of its efforts. Sampling one letter of the alphabet among the list of stockholders may be sufficient. In each successive, sample survey, another letter may be used.

The opinion survey must be conducted scientifically or it will not yield dependable results. Also, if it is not handled properly, it may hurt stockholder relations. Therefore, it is advisable to let someone trained in public relations conduct the survey. Certainly, only a person who knows the scientific requirements of survey questions should construct the questionnaire.

GETTING STOCKHOLDER OPINION ON POLICY

Corporations have at times voluntarily asked their stockholders to vote, at annual meetings or through special ballots, upon questions that did not require stockholder opinion or consent. Such invitations to participate in management have been made as a matter of policy and to better stockholder relations. For example, some companies have asked their stockholders to ratify the directors' choice of auditors. Others have asked the stockholders to approve certain changes in employee-benefit plans and bonus plans. Consolidated Edison Company once balloted its stockholders to get their views on competitive bidding in selling new issues of securities. At the following stockholders' meetings it announced the results: 89% of the stockholders were in favor of letting the directors decide how to sell new issues.

As the trend toward greater attendance at stockholders' annual and regional meetings continues, more and more proposals will be offered by stockholders. Management will feel that some of these proposals should, as a matter of policy, be put up to the stockholders. The directors must judge carefully whether such solicitation of stockholder advice will improve stockholder relations without thwarting management.

REPLIES TO STOCKHOLDERS' LETTERS

A company that has succeeded in making stockholders feel close to management will get more letters from stockholders than one that does nothing to awaken stockholder interest. A policy for replying to stockholder inquiries, criticisms and suggestions should be established by every corporation, whether it has a fully developed stockholder-relations program or not. This policy should take into account the following attitudes of progressive management: (1) The letter gives management an opportunity to show that it recognizes the stockholders as owners for whom management is working, (2) the holder of one share deserves as much consideration as the holder of many, (3) goodwill is fostered if a prompt and complete reply is given and if the letter is signed by an important officer, (4) the reply must be personal and friendly, (5) all such letters should be seen by whoever has charge of stockholder relations.

The fact that a personal reply is essential does not exclude the use of form paragraphs. For example, a carefully thought out and constructed response to each of the criticisms that occur from time to time, can be used repeatedly with slight modifications. Most corporations can use such adaptable form letters in answering criticisms concerning:

1. Dividend policies.
2. Labor policies.
3. Salaries of executives.
4. Executive-bonus and incentive-payment plans.
5. Employee-benefit plans.

INVITATIONS TO VISIT THE PLANT

One effective way of making stockholders feel that they are fellow sponsors of the enterprise is to invite them to visit the plant and to treat them like part-owners when they accept the invitation. The visitors can be handled most satisfactorily if management knows in advance that they are coming. For this reason, most companies that use this method of building stockholder goodwill ask stockholders to notify a designated person of the proposed visit.

Some companies include announcements in their annual notice of stockholders' meeting that, after adjournment of the meeting, stockholders will be invited to inspect the company's plant. Other companies include standing invitations in their letters of welcome to new stockholders or in their annual reports.

In a dividend-enclosure pamphlet describing an employee seminar training course, the Visking Corporation invited interested stockholders to attend the seminars. Advance notice to the supervisor of training was requested.

The opening of a new plant, building or office is a good occasion for a general invitation to stockholders to inspect the property and meet the management.

CHAPTER 19

ANNUAL REPORTS TO EMPLOYEES

Today, when the annual report to stockholders is being planned, most boards of directors raise the question: Shall we also report to the employees? For purposes of this chapter, we shall assume that a report to employees is advisable. The next question the board raises is: Shall we prepare one report that will go to stockholders and employees or shall we issue separate reports?

The discussion in this chapter should help directors make a choice. The arguments in favor of a single report and those in support of separate reports are given after the discussion, at page 276.

MANAGEMENT'S BASIC JOB

Polls of public opinion[1] and employee surveys[2] have shown that employees think their companies earn considerably more than the company reports. Polls also show that when the average worker is asked what he considers a fair per cent of net profit, he will usually mention a rate higher than that reported by the company.[3] When shown actual figures that fall far below what he considers is a fair return, he will still maintain that the company makes too much money. Unreasonable? Perhaps. But that is the condition management must face. It arises from (1) employees' failure to understand the realities of competitive business, (2) lack of confidence in figures presented by management.

Management's basic job, then, is to correct misconceptions, create understanding and build confidence in its reports. Before it can hope to make headway in this task, it must know something of the causes of the existing condition.

WORKERS' SOURCES OF INFORMATION

The worker gets his information from three principal sources: (1) Government, (2) union and (3) employer. The press serves all three sources and brings the information to the worker as a part of the public. Let us see how each of these sources operates in forming employee opinion.

GOVERNMENT INFORMATION

The government is theoretically neutral. It makes available factual, statistical information on wages, employment, corporation profits, cost of living, prices and other economic factors. The various governmental departments that compile the figures also prepare newspaper releases when the statistics are published. Each newspaper writes its own headlines for the stories based on the releases. These make an impression on the worker, as on the general reader. But does the average employer stop to question the impression made by the news account? Rarely. The figures are averages or for "all industry," and that lets him out. He may use some of the statistics in his annual report (for examples, see page 210), but he does not use them to give his version of the economic facts reflected in the figures.

Occasionally, especially when Federal labor or tax legislation is pending, the government is again a source of information for the worker. This time it is not a cold, statistical release that reaches the newspapers but a journalist's report of a dramatic highlight. It is flashed to the public by radio as well as press. If the story hits a particular employer, he may act quickly to correct possible misunderstanding. If it hurts a particular industry or business generally, some employers' organization may answer to avoid misinterpretation. On the whole, however, neither the individual employer nor the organization that represents him acts quickly enough or often enough to counteract misleading information.

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[1] See Chapter 2.

[2] "What the Factory Worker Really Thinks," *Factory,* Dec. 1945 and Jan. 1946; "An Appraisal of the Steel Industry," conducted during May 1946 by Opinion Research Corporation; survey by Rochester Gas & Electric Corporation 1947; Wage Earner Forum conducted by Research Department of MacFadden Publications, Inc., New York, 1947.

For a discussion of methods of making surveys of employee opinions, see *A Preliminary Report of Employee Opinion Surveys,* released by the Association of National Advertisers and the American Association of Advertising Agencies in connection with their "Program for American Industry." This report mentions the following leaders in the work of conducting employee surveys: Houser Associates, McKinsey & Co., Robert N. McMurry, Opinion Research Corporation, Psychological Corporation, Elmo Roper, and Charles C. Stech.

[3] See page 14.

When a strike reaches such proportions that government action becomes imminent, employers usually wake up to the need for getting their version of facts and figures to employees and the public. The time, however, is not then propitious for removing erroneous impressions, especially among the employees.

HOW THE UNIONS GET INFORMATION TO EMPLOYEES

Labor unions have their well organized programs for educating the workers in the facts of business life—as the union sees them. The best professional guidance of economists, public-relations people and others has been used in devising these programs. High-grade personnel has been used to do the research and to apply the techniques. Printed literature, educational films, phonograph recordings of skits, speakers, forum leaders and sound-track artists have been used to get the messages across.

Literature published by the unions is simple, direct, easy to read and graphic. If the experts say that a funny paper is the right technique for a particular message to a certain group, top-flight talent is hired to get it out. If a series of labor radio programs is planned, a drive is made to get a labor audience to attend. Notices in the labor and public press, throw-aways, handbills give plenty of publicity to the event.

Labor unions do not distribute all of their literature without charge. In some instances, members pay for new pamphlets; nonunion workers, editors and commentators, schools and others get them for nothing.

These are techniques that the labor unions find are effective.

EMPLOYER INFORMATION

What do employers do to give employees business and economic information? For the most part, individual employers tell their employees nothing about the results of operations. Their indifference to employee misunderstanding is as striking as the indifference of the masses of the American people to great national issues. It is up to the leaders of industry, as it is up to leaders in each community, to stir people out of their apathy.

A few companies have given thought to the problems of correcting misconceptions and of reaching employees with understandable facts. Their employee magazines show a serious attempt to cope with the problems. Their annual reports show an effort to reach employees with a readable and understandable message. Some of their pamphlets and monographs have attempted to explain why the American worker has more and works less than other workers in the world. In various ways, their special publications and advertisements have tried to contradict false beliefs with facts.

But companies that have presented facts to employees are the exception. Certainly, the present lack of understanding among the mass of workers shows that not enough has been done. Possibly the material that has been distributed has not been read. The pamphlets referred to have been beautiful, dignified, graphic and fairly easy to read. Contrasted with labor organization literature, they have definitely been "high class."

WHAT CAN BE DONE

What Allegheny Ludlum Steel Corporation did immediately following the 1946 general steel strike is an example of what should be done more generally.

First, the company got the facts. A survey was conducted in May 1946 by Opinion Research Corporation to arrive at an appraisal of the steel industry by the people and by steel workers. This survey included 2617 personal interviews with a cross-section of the voting public and 988 personal interviews with representative groups of union and nonunion steel workers in different sections of the country. It showed the company what employees in the steel industry and the people were thinking. It brought to light many misconceptions. It indicated to the company what its labor and public-relations job was. Another survey by Opinion Research Corporation, entitled "How to Get Along in the Plant Community," pointed out the key factors in good community relations It also showed what practices led to the most successful employee and community relations.

Second, the company made its plans, using facts brought out in the surveys to guide it. It outlined a program for a long-range educational campaign among employees and their neighbors. The goal of the campaign was to correct the misconceptions these groups had of the industry in general and of Allegheny Ludlum Steel Corporation specifically. Because an extreme urgency existed for getting the campaign underway quickly, a five-part program was immediately undertaken. This consisted of (1) community meetings, (2) publicity, (3) advertising, (4) letters and booklets and (5) posters. The entire program was built around four principles that guide the operating procedures of the company, namely:

1. We have a genuine concern for the welfare of our employees and the communities in which they live.
2. We pay good wages.
3. We make fair profits.
4. We want to prevent "BOOM AND BUST"!

All activities incorporated one or more of these four principles.

In this book, we are limited to a discussion of one medium to correct misconceptions among employees—the annual report to employees. The campaign of the Allegheny Ludlum Steel Corporation will be used as part of the illustrative material.

HOW THE ANNUAL REPORT IS HANDLED

In current practice, the annual report to employees is handled in the following ways:

1. A special version of the annual report to stockholders is prepared for employees.
2. One annual report is prepared and addressed to stockholders and employees and possibly others.
3. A special edition of the employee magazine is devoted to the annual report.
4. The report is published as part of a regular issue of the employee magazine.
5. The annual report to stockholders is sent to employees with a covering letter. Certain features of the report may be reproduced to accompany the letter or special explanations may be given. See examples on page 253.
6. The results of the year's operations are presented at a general, mass meeting of employees.

Actual distribution is made in one of the following ways:

1. Mailed to the employee's home where it can be seen by family, friends and neighbors.
2. Given to the employee with his pay envelope.
3. Distributed at the time clock.
4. Distributed with the company magazine.
5. Passed out by supervisors.
6. Distributed at employee meetings.

GIVING EMPLOYEES THE ANNUAL REPORT TO STOCKHOLDERS

To some companies, it may seem adequate for the present merely to give their employees the annual report to stockholders. For that reason, a few examples are given of how the presentation may be made.

Atlas Powder Company used a 3¾″ × 7″ slip, with a one and one-half inch fold at the top to permit the slip to be tucked into the cover of the report. The slip read:

> To the Employes
> of Atlas Powder Company:
>
> We believe you will be interested in having this copy of the Company's Annual Report to the stockholders—the owners of the Company. The report explains our business for 1946 and gives a brief description of the products we make. It expresses the hope that we will continue to go ahead with more and better products and better service to our customers which make possible more and better jobs.
>
> Isaac Fogg, *President*

The Pennsylvania Railroad Company sent to employees the following letter with the annual report to stockholders.

> To the Employees:
>
> The Annual Report of a railroad is addressed to the stockholders, who are the owners of the property. It is an account of stewardship by the directors and management.
>
> The Report is just as important to the employees, who gain their livelihood in the railroad's service. It is highly to their interest to know how the affairs of the Company are going and what the problems of

management are and how they are being met. These are matters upon which employment depends, and upon which the understanding and cooperation of the employees is vitally needed, not only in the effort to attract the business and revenues which sustain employment, but in other concerns which are the mutual problems of all of us.

Actually, the stake of the employees in the welfare of the railroad is many times greater than that of the stockholders. On the average, stockholders of our railroad last year were paid $90.00 in dividends. (The average stockholding was 60 shares; the dividends paid were $1.50 per share.) The average wages paid per employe were over $3,100.00.

For these reasons, continuing the custom inaugurated with the 1943 Report, a copy of the Report for 1946 is sent to all employees. It is my most sincere belief that a careful reading of it will repay everyone of you and add to your interest and satisfaction in your work.

(signed) M. W. Clement

Westinghouse Air Brake Company prepared a four-page folder with the following letter on the first page. The inside of the folder contained the two-page spread reproduced at page 254, showing how owners, employees, customers and suppliers operate as a team to bring about successful results. The last page was a diagram showing how every dollar of income was divided during the year.

To All Employees:

The achievements listed in the accompanying 77th annual report to stockholders would have been impossible without coöperation between the owners of this business, those of us who are employed here, the suppliers who furnished us needed materials, and, most important of all, our railroad customers.

It is our hope for 1947, in recognition of this dependence upon one another, that each of us makes sure his own effort is sufficiently productive to assure the company continuing success in its field, which will accrue to the benefit of the individual employee.

(signed) George A. Blackmore
Chairman of the Board
(signed) A. N. Williams
President

Thatcher Glass Manufacturing Company, Inc., sent its employees a four-page letter with the following message. As indicated in the president's letter, the reprints from the annual report showed how the sales dollar was divided.

To Our Employees:

I am attaching herewith some reprints of pages which were taken from our Annual Report to our Stockholders. These charts and figures should be of interest to each and every one of you. It shows you what has happened to every dollar your company takes in from its customers, and I feel that this is information which you should have. It paints a picture which will help you better understand "what makes our organization tick."

You have just as large a stake in the future prosperity of your company as I do. Probably a larger stake, because your entire livelihood is dependent upon its successful operation. That is why I want you to know where our money goes.

There may be some of you who would like to have complete copies of our Annual Report to our Stockholders. If so, do not hesitate to ask your plant manager for them. They are yours for the asking.

It is my belief that the more accurate information our people have about their company, the better it will be for all of us who represent Thatcher.

Sincerely yours,
(signed) Franklin B. Pollock,
President

To make it easy for employees to ask for and obtain a copy of the full annual report to stockholders—employees had received an eight-page report addressed to them—The Studebaker Corporation used the postcard shown on page 255. The reverse side was a business reply card. The employee did not have to sign his name, it was stenciled on the card.

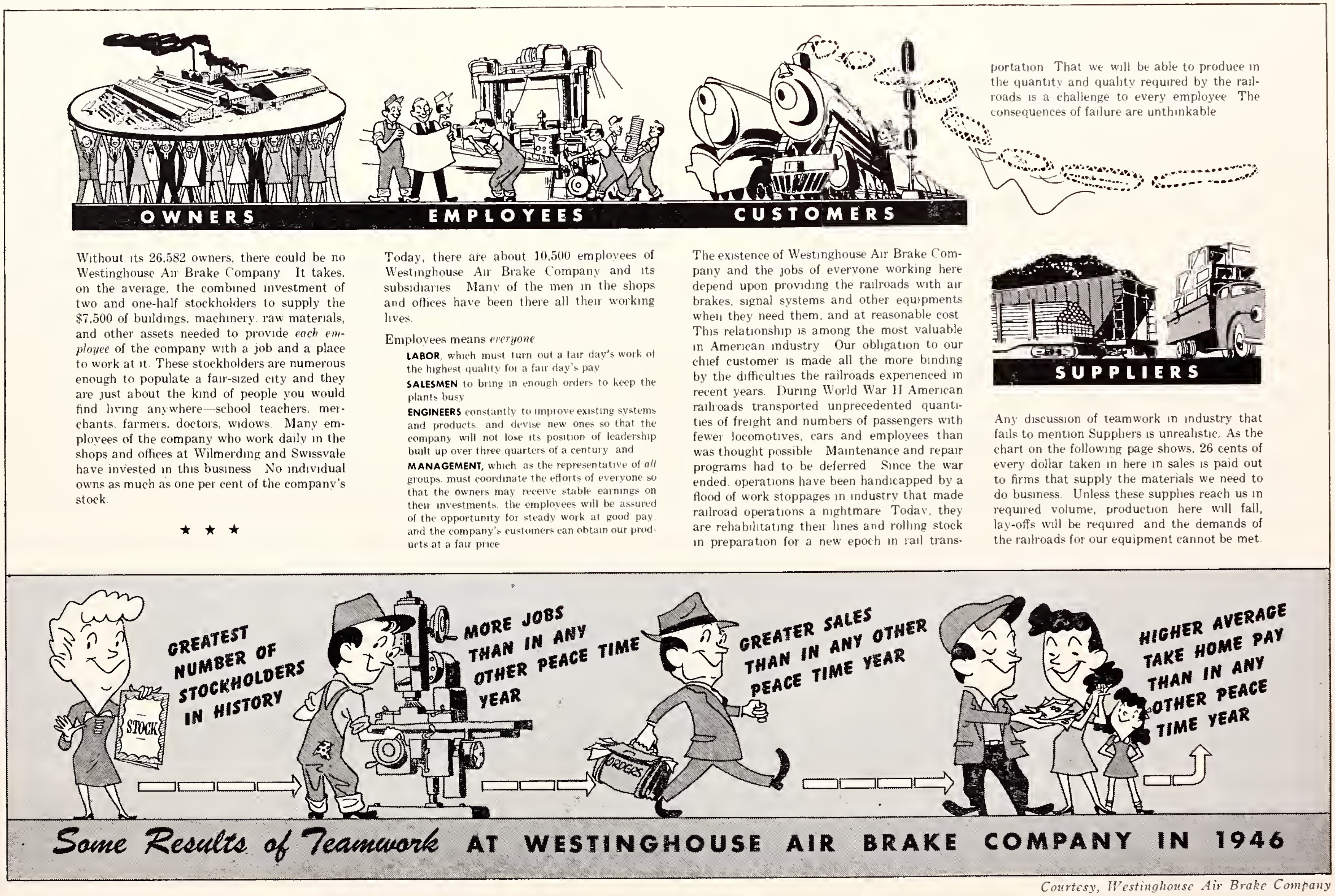
SOME GUIDES FOR REPORTING TO EMPLOYEES

Before showing the techniques that have been used in annual reports to employees, it would be well to deal briefly with three subjects that will affect any judgment of these techniques. They are: (1) The objectives of reporting to employees, (2) the employees' primary interests, (3) the criticisms of reports that have been made to employees.

OBJECTIVES OF REPORTING TO EMPLOYEES

A company that reports to its employees on the financial operations of the business has some or all of the following objectives:

1. To give employees facts about the company's progress that they can get in no other way.



OWNERS

Without its 26,582 owners, there could be no Westinghouse Air Brake Company. It takes, on the average, the combined investment of two and one-half stockholders to supply the $7,500 of buildings, machinery, raw materials, and other assets needed to provide *each employee* of the company with a job and a place to work at it. These stockholders are numerous enough to populate a fair-sized city and they are just about the kind of people you would find living anywhere—school teachers, merchants, farmers, doctors, widows. Many employees of the company who work daily in the shops and offices at Wilmerding and Swissvale have invested in this business. No individual owns as much as one per cent of the company's stock.

★ ★ ★

EMPLOYEES

Today, there are about 10,500 employees of Westinghouse Air Brake Company and its subsidiaries. Many of the men in the shops and offices have been there all their working lives.

Employees means *everyone*

LABOR, which must turn out a fair day's work of the highest quality for a fair day's pay

SALESMEN to bring in enough orders to keep the plants busy

ENGINEERS constantly to improve existing systems and products, and devise new ones so that the company will not lose its position of leadership built up over three quarters of a century, and

MANAGEMENT, which, as the representative of *all* groups, must coordinate the efforts of everyone so that the owners may receive stable earnings on their investments, the employees will be assured of the opportunity for steady work at good pay, and the company's customers can obtain our products at a fair price

CUSTOMERS

The existence of Westinghouse Air Brake Company and the jobs of everyone working here depend upon providing the railroads with air brakes, signal systems and other equipments when they need them, and at reasonable cost. This relationship is among the most valuable in American industry. Our obligation to our chief customer is made all the more binding by the difficulties the railroads experienced in recent years. During World War II American railroads transported unprecedented quantities of freight and numbers of passengers with fewer locomotives, cars and employees than was thought possible. Maintenance and repair programs had to be deferred. Since the war ended, operations have been handicapped by a flood of work stoppages in industry that made railroad operations a nightmare. Today, they are rehabilitating their lines and rolling stock in preparation for a new epoch in rail transportation. That we will be able to produce in the quantity and quality required by the railroads is a challenge to every employee. The consequences of failure are unthinkable.

SUPPLIERS

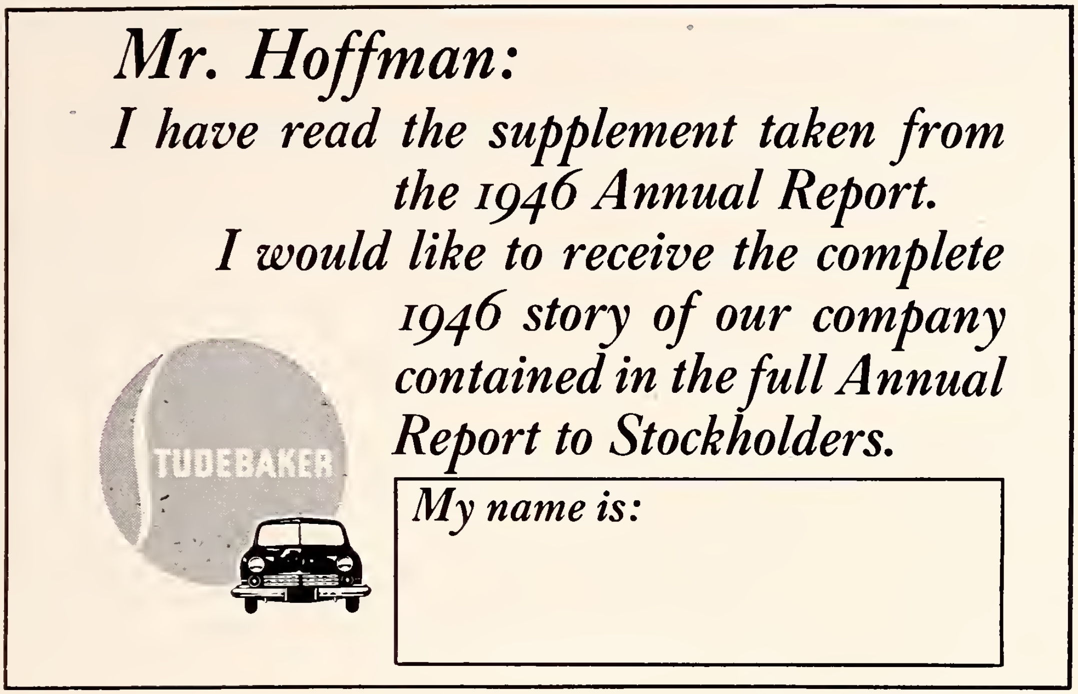
Any discussion of teamwork in industry that fails to mention Suppliers is unrealistic. As the chart on the following page shows, 26 cents of every dollar taken in here in sales is paid out to firms that supply the materials we need to do business. Unless these supplies reach us in required volume, production here will fall, lay-offs will be required, and the demands of the railroads for our equipment cannot be met.

STOCK
GREATEST NUMBER OF STOCKHOLDERS IN HISTORY
MORE JOBS THAN IN ANY OTHER PEACE TIME YEAR
ORDERS
GREATER SALES THAN IN ANY OTHER PEACE TIME YEAR
HIGHER AVERAGE TAKE HOME PAY THAN IN ANY OTHER PEACE TIME YEAR

Some Results of Teamwork AT WESTINGHOUSE AIR BRAKE COMPANY IN 1946

Courtesy, Westinghouse Air Brake Company

Fig. 154



Mr. Hoffman:

I have read the supplement taken from the 1946 Annual Report.

I would like to receive the complete 1946 story of our company contained in the full Annual Report to Stockholders.

My name is:

Courtesy, The Studebaker Corporation

Fig. 155

2. To correct misconceptions and avoid misunderstanding.
3. To gain the loyalty and support of employees for the company and for private enterprise generally.
4. To show the relationship among the stockholders, management and employees and to point out some of the economic problems that they must face together in the future.
5. To build employee morale by stressing the importance of their contribution to the company's operations and the company's importance to the national economy.
6. To encourage employees to use the company's products (if it makes consumer goods) and recommend them to others.

THE EMPLOYEES' PRIMARY INTERESTS

The Controller of Armstrong Cork Company, Keith Powlison, made some interesting observations on employee interests in an article on "Explaining the Facts to Employees," *Harvard Business Review,* No. XXV, No. 2, 1947. For nearly ten years this company had presented a separate financial report, with charts and other illustrative material, designed especially for employees, at first as a separate publication and then as an item in the employees' magazine, the *Reporter.* A cross-section sample of workers in a number of the company's factories were asked to state how often they read each of the eleven types of news items appearing regularly in this publication. The returns indicated that only one kind of news ranked lower in readership interest than the annual and semi-annual financial reports of the company.

Mr. Powlison stated also that the requests of employees cannot be relied upon as an indication of what information employees want. In his opinion, they ask for one thing when they want something else. He suggests that companies should find out what is *really* wanted.

Although it may be difficult to determine specifically what the employee wants to know, it is fairly clear that he is primarily interested in his own *security, opportunity* and *recognition.*[4] The management of Thompson Products, Inc., bases its entire program of human relations on the belief that these are the primary interests of their employees. A poll of employee opinion conducted in Cleveland plants of the company bore out this belief. To quote from its booklet *We Led With Our Chin,* a report on a survey of employee opinion, "The Thompson workman places greatest emphasis on security—on a feeling of reasonable certainty about the permanence of his present job. Secondly, he wants opportunity—a chance to move along and to better his lot in life. In addition to these, he wants recognition—a feeling that what he is doing is important, that it is appreciated by the other fellow, and that he has earned the right to be treated with dignity and respect."

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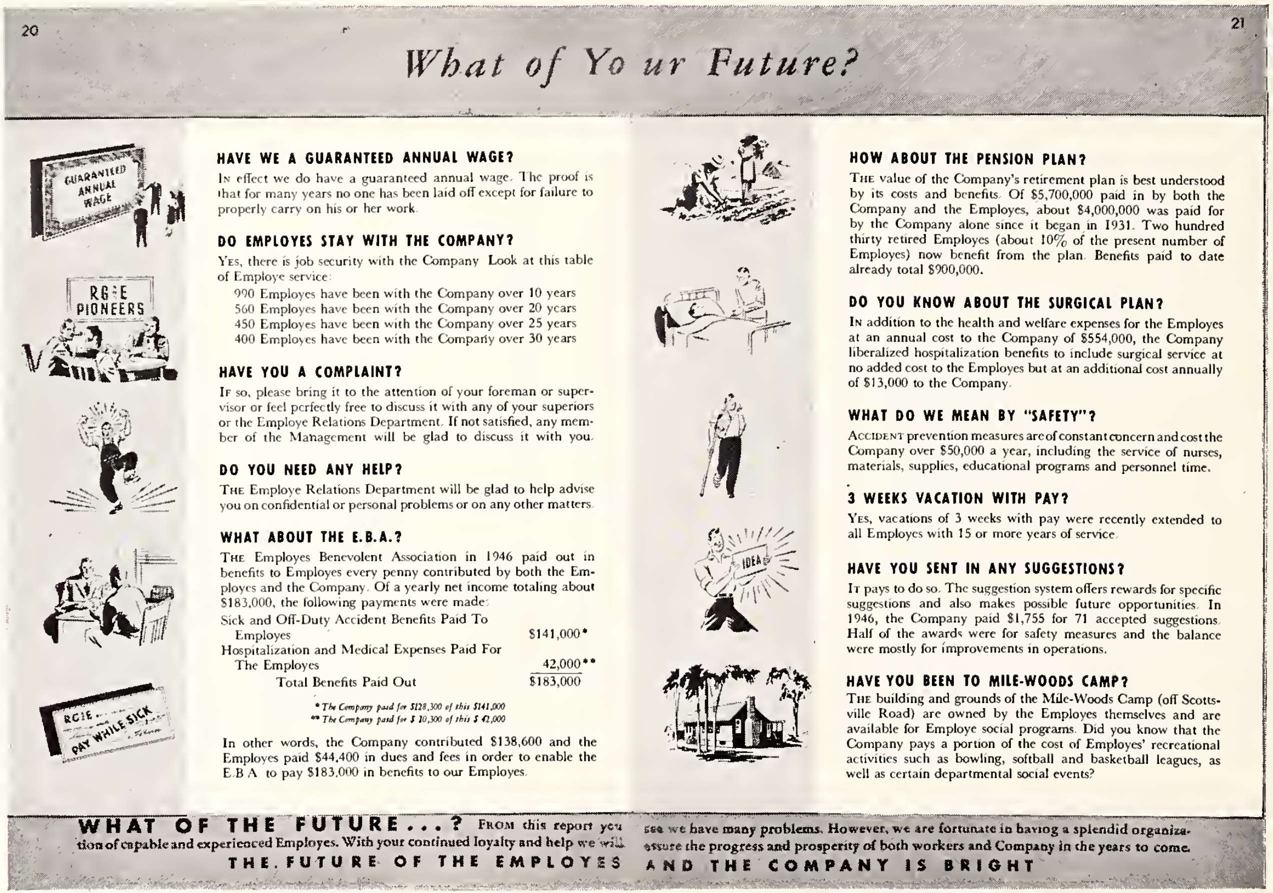
[4] Dr. Claude Robinson of Opinion Research Corporation reported to a special National Association of Manufacturers conference in 1947: "People want jobs and wages and good working conditions and continuity of employment. But they also need to feel important, to glow with pride, to feel themselves members of the company team, to have purpose and significance. A satisfactory job-package has two elements: the tangible—wages and working conditions and continuity; and the intangible—meaning—significance—pride. Both have a dollars and cents payoff."

A two-page spread in the Rochester Gas & Electric Company report to employees, reproduced in Fig. 156, offers a good illustration of copy that takes into account these three primary interests of employees.

CRITICISMS OF CURRENT PRACTICES IN REPORTING TO EMPLOYEES

Employees would have a better understanding of business facts and greater confidence in management's reports, if there were not something wrong with the way in which employers share information with them. Those who have given most thought to employee relations offer the following criticisms of current practices in reporting to employees:

1. Employers have not made a sufficient effort to explain the facts of business to their employees. Certainly, they have not gone about finding out what to tell their employees and how to tell it in the way that they proceed with production, sales and other business problems. Many of them have


20
21
GUARANTEED ANNUAL WAGE
RG&E PIONEERS
IDEA
RG&E PAY WHILE SICK

What of Your Future?

HAVE WE A GUARANTEED ANNUAL WAGE?

In effect we do have a guaranteed annual wage. The proof is that for many years no one has been laid off except for failure to properly carry on his or her work.

DO EMPLOYES STAY WITH THE COMPANY?

Yes, there is job security with the Company Look at this table of Employe service:

990 Employes have been with the Company over 10 years
560 Employes have been with the Company over 20 years
450 Employes have been with the Company over 25 years
400 Employes have been with the Company over 30 years

HAVE YOU A COMPLAINT?

If so, please bring it to the attention of your foreman or supervisor or feel perfectly free to discuss it with any of your superiors or the Employe Relations Department. If not satisfied, any member of the Management will be glad to discuss it with you.

DO YOU NEED ANY HELP?

The Employe Relations Department will be glad to help advise you on confidential or personal problems or on any other matters.

WHAT ABOUT THE E.B.A.?

The Employes Benevolent Association in 1946 paid out in benefits to Employes every penny contributed by both the Employes and the Company. Of a yearly net income totaling about $183,000, the following payments were made:

Sick and Off-Duty Accident Benefits Paid To Employes	$141,000*
Hospitalization and Medical Expenses Paid For The Employes	42,000**
Total Benefits Paid Out	$183,000

** The Company paid for $128,300 of this $141,000*
*** The Company paid for $ 10,300 of this $ 42,000*

In other words, the Company contributed $138,600 and the Employes paid $44,400 in dues and fees in order to enable the E.B.A. to pay $183,000 in benefits to our Employes.

HOW ABOUT THE PENSION PLAN?

The value of the Company's retirement plan is best understood by its costs and benefits. Of $5,700,000 paid in by both the Company and the Employes, about $4,000,000 was paid for by the Company alone since it began in 1931. Two hundred thirty retired Employes (about 10% of the present number of Employes) now benefit from the plan. Benefits paid to date already total $900,000.

DO YOU KNOW ABOUT THE SURGICAL PLAN?

In addition to the health and welfare expenses for the Employes at an annual cost to the Company of $554,000, the Company liberalized hospitalization benefits to include surgical service at no added cost to the Employes but at an additional cost annually of $13,000 to the Company.

WHAT DO WE MEAN BY "SAFETY"?

Accident prevention measures are of constant concern and cost the Company over $50,000 a year, including the service of nurses, materials, supplies, educational programs and personnel time.

3 WEEKS VACATION WITH PAY?

Yes, vacations of 3 weeks with pay were recently extended to all Employes with 15 or more years of service.

HAVE YOU SENT IN ANY SUGGESTIONS?

It pays to do so. The suggestion system offers rewards for specific suggestions and also makes possible future opportunities. In 1946, the Company paid $1,755 for 71 accepted suggestions. Half of the awards were for safety measures and the balance were mostly for improvements in operations.

HAVE YOU BEEN TO MILE-WOODS CAMP?

The building and grounds of the Mile-Woods Camp (off Scottsville Road) are owned by the Employes themselves and are available for Employe social programs. Did you know that the Company pays a portion of the cost of Employes' recreational activities such as bowling, softball and basketball leagues, as well as certain departmental social events?

WHAT OF THE FUTURE . . . ? From this report you see we have many problems. However, we are fortunate in having a splendid organization of capable and experienced Employes. With your continued loyalty and help we will assure the progress and prosperity of both workers and Company in the years to come.

THE FUTURE OF THE EMPLOYES AND THE COMPANY IS BRIGHT

Courtesy, Rochester Gas and Electric Corporation

Fig. 156

issued special reports to employees or have prepared an annual report to stockholders and employees, just because it has become the thing to do. They have never determined whether the report is read or what the employee really wants to know.

2. A report once a year, even if thoughtfully prepared, is not sufficient by itself to create a correctly informed body of workers. Employee education in business facts must be a continuous process and an integral part of the company's operations. The campaign of the Allegheny Ludlum Steel Corporation, mentioned at page 215, indicates some of the activities management might undertake to keep the educational process going. Interim reports to employees and articles in employee magazines also help.

3. In reports to employees, corporations have too often included financial statements that are unintelligible to their employees. In Chapter 14, we have discussed what the average reader finds confusing in balance sheets and income statements and have shown how these statements can be simplified. More ideas are given later in this chapter for making figures mean something to the employee.

4. Management has not been sincere in sharing information with employees. It has withheld certain information, for example, that it may correctly feel would be harmful to divulge. But it has given no explanation of how it would hurt the company and employee interests to make the facts available. A candid explanation to employees might be sufficient to remove some of the existing skepticism of employers' statements—if employees believed that management was sincere.

5. Reports to employees have too often given the impression that management and stockholders are making great sacrifices for the benefit of labor.

6. Financial data have not always been presented objectively. Some employee reports have been used for propaganda purposes.

7. Management can do a more adequate job in reporting on conditions that touch the employees' closest interests—his security, opportunity and recognition. It has, for example, often antagonized employees in its report on employee benefits, managerial compensation and plans for expansion.

8. Management has preached free enterprise and extolled the system without taking into account the employees' viewpoint.

9. Frequently, in its attempts at simplified reporting, management has gone too far and has produced a report that "talks down" to employees. Intelligent working people resent the implied slight to their mental powers and are likely to question the sincerity of the entire report. Scrupulous observance of the employee's viewpoint will minimize this danger of a patronizing tone.

In this chapter, suggestions are made for handling subjects of special interest to employees. Examples have been chosen that appear to be free of the criticisms enumerated above. They constitute the constructive ideas that are offered for improving annual reports to employees.

MANAGEMENT SHOULD CONSIDER LABOR'S ATTITUDE

Organized labor wants industry to give employees more information about business earnings. William Green, in an editorial in the *American Federationist* for June 1947, said:

> Workers as well as management should have the facts of their industry and their employing company, so that their policies can be guided accordingly. No management would conceal essential facts from investing stockholders. Since workers make an equally important contribution to the company's earnings, they are entitled to know how the earnings are distributed. When employers realize their moral responsibility to give workers an accounting on what happens to the goods and services they help produce, labor relations will reach the level of honest, open negotiation. Under such a relationship our economy would have a better chance to maintain high levels of production and earnings with a proportional purchasing power.

In an earlier editorial, Mr. Green was more specific. Said he:

> We believe management can, without revealing trade and production secrets, provide workers with records showing their various contributions to production, the amounts produced, returns from sales and amounts paid for materials, management and overhead, taxes, total wages, total salaries, dividends to stockholders, profits and the reserves necessary to maintain and advance the enterprise. Such records constitute a proper basis for collective bargaining.

Should management try to satisfy organized labor with detailed information about the results of business operations? That is a question that each company must decide for itself. But if it is going to satisfy the union, it might just as well give the information directly to its employees, too.

Management must also remember that labor-union analysts will study the report made to stockholders as well as that made to employees. If the employee report does not satisfy the purposes of the union, union leaders may denounce it as propaganda. They may tell union members to ignore it. This does not imply that every frank and full report to employees will escape attack. But certainly a factual, objective report is less open to criticism than one that is slanted to show management in the most favorable light.

THE GENERAL PLAN OF THE REPORT TO EMPLOYEES

An over-all plan for the report makes it easier to follow and, incidentally, easier to write. First, see the ideas given at page 17 for planning a report to stockholders. Some of them are good for planning a separate report to employees. Below are ideas that were used in some of the best reports to employees.

1. Limit the report to an explanation of where the money went that the company collected from its customers.
2. In the first part, treat the subjects of general interest to employees—for example, reasons for the report, who owns the company, profits, competition, new products, new markets, problems and the like. In the second part, give the explanation of the company's cost of living.
3. Divide the report into several parts—for example, what the men and women of the company have accomplished; how the money came and went; financial statements; people, plants and products; highlights of the year; outlook for the future.
4. Include articles by the president, covering the highlights, and by each of the directors or managers of the various divisions. The report on the distribution of the income dollar would be made by the comptroller or other financial officer. If the plan of having the report put together with sections written by each department is considered, management should ask itself: (1) Will the picture be more confusing than that created by an over-all survey signed by one top man with whom the average employee may be expected to be familiar? (2) Does it assume a greater interest in the details of the business than the average employee has or should have? (3) Can the practical difficulty of keeping each department head within the space allotted him be met easily?

LIVELY FACTS AND FIGURES

A report to employees must, above all, be easy to read. This goes for stockholders' reports as well. But the techniques that might do for employees, because they are accustomed to getting business information in lively form from their unions, would not do for the stockholders. We are not advocating here that industry ape the unions, or that employers talk down to their employees in company literature, or that "kindergarten stuff" be passed out to workers. Reports to employees can be made lively and interesting and still escape all of these criticisms. Take, for example, Baltimore & Ohio Railroad Company's report to its employees entitled *Know Your B & O*. Although this booklet was not issued as an annual report, it is enough like one to be used here for illustrative purposes. In twenty pages of sprightly explanations and illustrations, Don Herold gives the company's message. It is an easy-to-read booklet with cartoons, as Fig. 157 indicates. This is not infantile in treatment, nor is it "talking down."

The report was sent to the homes of the employees. To test whether it had been read, the company conducted an abbreviated poll that included questions on the facts covered in the booklet. It found that the average employee questioned in the poll got over three-fourths of the answers correct.

SHOWING THE EMPLOYEE HOW MONEY TAKEN IN WAS DIVIDED

Modern annual reports show how the money taken in during the year was divided. Ways in which this is done were illustrated in Chapter 7. This feature is especially popular in annual reports to employees. The three ways of telling the story—statistically, graphically and narratively—are further illustrated below from reports prepared especially for employees.

I'll bet our road makes plenty
We can easily find out

How much does a railroad make?

If companies and employes don't get mutual good from each other, good night!

I believe they do.

Some employes think their employers make too much profit on them.

An impartial survey of railroaders by outside experts shows that this is how railroaders think about their company's profit. Here is how they "guesstimate" their employer's profits:

36% didn't guess at all
9% guessed over 75% profit
9% " 50 to 75% profit
6% " 35 to 49% profit
10% " 25 to 34% profit
8% " 16 to 24% profit
8% " 11 to 15% profit
5% " 10% profit
5% " 6 to 9% profit
4% " 5% profit or less

Only 4 percent were right!

Perhaps you'd like to see what the stockholders of the B. & O. have had as "rent" on their dough over a number of years. Here's the record:

DIVIDENDS

Year	Preferred Stock	Common Stock
1920	4%	None
1921	4%	None
1922	4%	None
1923	4%	2½%
1924	4%	5%
1925	4%	5%
1926	4%	6%
1927	4%	6%
1928	4%	6%
1929	4%	6½%
1930	4%	7%
1931	4%	3½%
1932	None	None
1933	None	None
1934	None	None
1935	None	None
1936	None	None
1937	None	None
1938	None	None
1939	None	None
1940	None	None
1941	None	None
1942	None	None
1943	None	None
1944	None	None
1945	None	None
1946	None	None

The B. & O. had a fairly good income in the five years prior to 1946, but its net earnings went into reduction of debt and improvement of property. There were no dividends in these years.

Courtesy, The Baltimore & Ohio Railroad Company.

Fig. 157

The simplified income statement at page 261 is from Joy Manufacturing Company's annual report to employees. It has one idea not found in the simplified income statements given at pages 188 et seq. It shows how the employees' share of the company's income compares with the stockholders'.

Payroll costs, it will be seen, are excluded from the list of costs and expenses. Therefore, when the total of expenses (excluding wages and salaries) is subtracted from the total income, a figure remains that is the amount "left to be divided between employees and shareholders." Then follow the portions taken by employees in wages and salaries, by stockholders in dividends and by the business for a rainy day.

A number of companies have used a similar form in their reports to employees. One criticism has been made of this form that may be worth mentioning: It implies that the company has *voluntarily* treated the employees much better than it has its stockholders. As a matter of fact, wages are largely out of the company's control; they are influenced by conditions in the particular industry, competition and other external factors. The form, however, has this virtue: It helps to correct any misconception as to the relative shares of company income that go to employees, stockholders and back into the business. The shares are brought out even more clearly when the percentage that each of the three "takers" gets of the total amount left to employees and stockholders is shown in parenthesis with each sum.

Comparing wages with total "value added" by a company's operations will stress the employees' stake in the company's profitable operation. For an explanation of the "value added" concept, see page 72.

ANOTHER GRAPHIC STORY OF DIVISION OF INCOME

The annual report to employees for 1946 made by Thompson Products, Inc., was devoted exclusively to an analysis of all the money received by the company that year and how it was distributed. The report was a folded broadside, 8¼″ × 10″ when folded, 24¾″ × 19¾″ when open. One fold gave a statement of how the company income was divided. When opened, the broadside showed a cartoon presentation of the figures given in the statement. A strip of this cartoon is reproduced in Fig. 159. The remainder of the folder included the president's letter and a statement called "Why this report?" The latter is also reproduced (see Fig. 160) because it attempts to answer employee skepticism about the dependability of the figures.

EXPLAINING THE ITEMS IN THE DIVISION OF INCOME

In addition to a simplified income statement and chart showing how the money received was spent, an explanation of each item may be helpful. These explanations offer an opportunity to correct misconceptions and to build confidence in management. If the explanations are simple, clear, man-to-man talks, employees are bound to feel that management wants them to have the facts and understand them.

In the Joy Manufacturing Company's report to employees, two facing pages were devoted to each item in the simplified income statement reproduced at page 261. In each case, the left-hand page carried illustrations. At the top was the name of the item, the amount and a picture of the portion of the sales dollar that it represented. Below this illustrated caption was a cartoon of the item. The right-hand page carried the explanation. To show the technique, an entire page is reproduced at page 264. The repetition of the amounts in the right-hand margin of twelve pages did not become monotonous because of the circled amount, which, of course, was different on each page.

EXPLAINING A SURPLUS TO EMPLOYEES

Some employee reports have offered simple explanations of "surplus" or amounts ploughed back into the business. Here are a few examples.

General Refractories Company explained why a surplus is kept in these terms:

> Every business must have "rainy day" money. To keep faith with the thousands for whom it provides jobs, your Company must prepare for unforeseen emergencies. It must have funds to help carry payroll in poor times. It must have cash to make improvements that will keep General Refractories in a strong, competitive position, able to produce more and better products, thus creating more jobs.
>
> By retaining part of each year's profits for this pur-

SOURCE AND DISPOSITION OF JOY'S INCOME FOR THE YEAR ENDED SEPTEMBER 30, 1946

TOTAL PAID US BY OUR CUSTOMERS FOR MACHINES, PARTS AND SERVICES		**$29,534,034**

THIS MONEY WAS USED AS SHOWN HERE FOR THESE NECESSARY EXPENSES

TAXES	$ 2,723,512	
MATERIALS AND SUPPLIES	14,119,862	
NEW TOOLS	657,756	
DEPRECIATION	219,938	
DEFECTIVE WORK	264,212	
TRAVELING AND ADVERTISING	802,587	
HOUSEKEEPING BILLS	956,068	
TOTAL OF THESE NECESSARY EXPENSES		**$19,743,935**

THIS AMOUNT WAS THEN LEFT FOR EMPLOYEES AND SHAREHOLDERS		**$ 9,790,099**

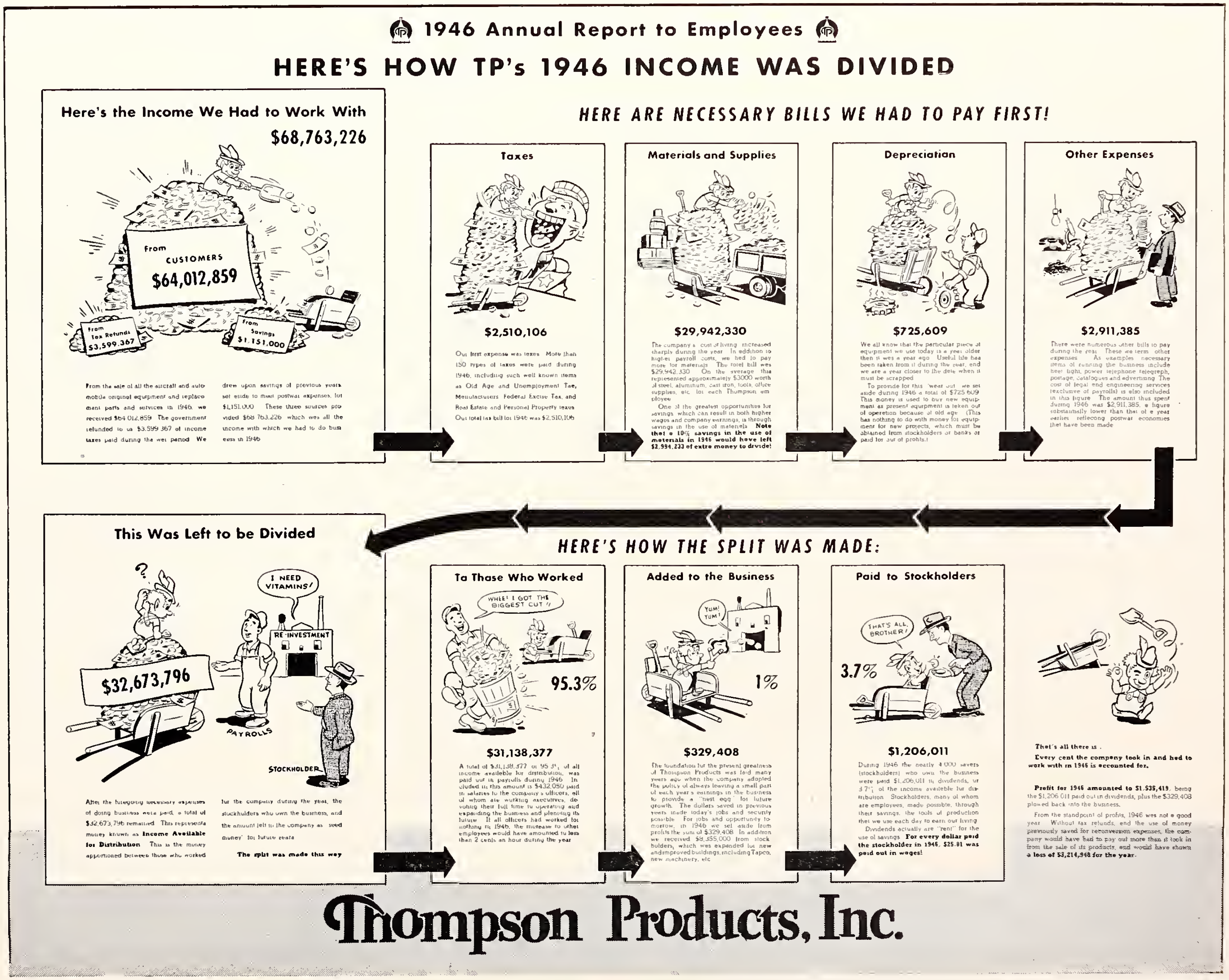
IT WAS DIVIDED IN THIS WAY

WAGES AND SALARIES	$ 7,584,147	
DIVIDENDS	587,499	
KEPT FOR TOMORROW'S JOBS	1,618,453	
		$ 9,790,099
		— 0 —

THE COMPANY'S PROFIT FOR THE YEAR WAS $2,205,952, THE SUM OF THE LAST TWO ITEMS ABOVE. THIS REPRESENTS 7.47% OF JOY'S TOTAL INCOME.

Courtesy, Joy Manufacturing Company

Fig. 158


From Tax Refunds $3,599,367
From CUSTOMERS $64,012,859
From Savings $1,151,000
I NEED VITAMINS!
RE-INVESTMENT
PAYROLLS
STOCKHOLDER
$32,673,796
WHEE! I GOT THE BIGGEST CUT!
95.3%
YUM! YUM!
1%
THAT'S ALL, BROTHER!
3.7%

1946 Annual Report to Employees

HERE'S HOW TP's 1946 INCOME WAS DIVIDED

Here's the Income We Had to Work With

$68,763,226

From the sale of all the aircraft and automobile original equipment and replacement parts and services in 1946, we received $64,012,859. The government refunded to us $3,599,367 of income taxes paid during the war period. We drew upon savings of previous years set aside to meet postwar expenses, for $1,151,000. These three sources provided $68,763,226 which was all the income with which we had to do business in 1946.

HERE ARE NECESSARY BILLS WE HAD TO PAY FIRST!

Taxes

$2,510,106

Our first expense was taxes. More than 150 types of taxes were paid during 1946, including such well known items as Old Age and Unemployment Tax, Manufacturers' Federal Excise Tax, and Real Estate and Personal Property taxes. Our total tax bill for 1946 was $2,510,106.

Materials and Supplies

$29,942,330

The company's "cost of living" increased sharply during the year. In addition to higher payroll costs, we had to pay more for materials. The total bill was $29,942,330. On the average this represented approximately $3000 worth of steel, aluminum, cast iron, tools, office supplies, etc. for each Thompson employee.

One of the greatest opportunities for savings, which can result in both higher wages and company earnings, is through savings in the use of materials. **Note that a 10% savings in the use of materials in 1946 would have left $2,994,233 of extra money to divide!**

Depreciation

$725,609

We all know that the particular piece of equipment we use today is a year older than it was a year ago. Useful life has been taken from it during the year, and we are a year closer to the date when it must be scrapped.

To provide for this "wear out" we set aside during 1946 a total of $725,609. This money is used to buy new equipment as present equipment is taken out of operation because of old age. (This has nothing to do with money for equipment for new projects, which must be obtained from stockholders or banks or paid for out of profits.)

Other Expenses

$2,911,385

There were numerous other bills to pay during the year. These we term "other expenses." As examples, necessary items of running the business include heat, light, power, telephone, telegraph, postage, catalogues and advertising. The cost of legal and engineering services (exclusive of payrolls) is also included in this figure. The amount thus spent during 1946 was $2,911,385, a figure substantially lower than that of a year earlier, reflecting postwar economies that have been made.

This Was Left to be Divided

After the foregoing necessary expenses of doing business were paid, a total of $32,673,796 remained. This represents money known as **Income Available for Distribution**. This is the money apportioned between those who worked for the company during the year, the stockholders who own the business, and the amount left in the company as "seed money" for future years.

The split was made this way

HERE'S HOW THE SPLIT WAS MADE:

To Those Who Worked

$31,138,377

A total of $31,138,377 or 95.3% of all income available for distribution, was paid out in payrolls during 1946. Included in this amount is $432,050 paid in salaries to the company's officers, all of whom are working executives, devoting their full time to operating and expanding the business and planning its future. If all officers had worked for nothing in 1946, the increase to other employees would have amounted to less than 2 cents an hour during the year.

Added to the Business

$329,408

The foundation for the present greatness of Thompson Products was laid many years ago when the company adopted the policy of always leaving a small part of each year's earnings in the business to provide a "nest egg" for future growth. The dollars saved in previous years made today's jobs and security possible. For jobs and opportunity tomorrow, in 1946 we set aside from profits the sum of $329,408. In addition we received $8,355,000 from stockholders, which was expended for new and improved buildings, including Tapco, new machinery, etc.

Paid to Stockholders

$1,206,011

During 1946 the nearly 4,000 savers (stockholders) who own the business were paid $1,206,011 in dividends, or 3.7% of the income available for distribution. Stockholders, many of whom are employees, made possible, through their savings, the tools of production that we use each day to earn our living.

Dividends actually are "rent" for the use of savings. **For every dollar paid the stockholder in 1946, $25.81 was paid out in wages!**

That's all there is . . .

Every cent the company took in and had to work with in 1946 is accounted for.

Profit for 1946 amounted to $1,535,419, being the $1,206,011 paid out in dividends, plus the $329,408 plowed back into the business.

From the standpoint of profits, 1946 was not a good year. Without tax refunds, and the use of money previously saved for reconversion expenses, the company would have had to pay out more than it took in from the sale of its products, and would have shown **a loss of $3,214,948 for the year.**

Thompson Products, Inc.

Courtesy, Thompson Products, Inc.

Fig. 159

Why THIS REPORT?

Many different forms of financial reports are issued annually by the company, to stockholders and others, and these are available to employees on request.

However, experience shows that the form of report in which employees are most interested is the one which shows how all of the money taken in during the year was **divided.**

Figures used are based on the regular financial reports submitted to stockholders, and filed with the Securities & Exchange Commission. They cover the combined operations of Thompson Products, Inc. and subsidiaries in Greater Cleveland, Detroit, Toledo, Los Angeles and St. Catharines, Ont., Canada.

How the Report Was Prepared

The method used in preparing this report is similar to that used by the U. S. Department of Commerce in its study, "National Income in the United States, 1929-1935."

First, we show the total amount of money from the sale of all products and services during 1946. To this is added federal income tax refunds and the amount of money withdrawn from savings of earlier years for postwar use. This gives us the grand total of income we had to work with during the year.

Next, we subtract the necessary expenses of doing business, which include taxes, materials, depreciation, and other "housekeeping" items. There can be no money to divide until these bills are first provided for.

The amount left is **Income Available for Distribution** to employees, stockholders and the business itself.

Note that 95.3% of all the money available for distribution in 1946 was paid out to those who worked for the company, in the form of wages and salaries.

The amount paid out in dividends, plus that left in the business, is the company's net profit for the year.

You will find interesting and explanatory information on each of these items on the inside pages.

Courtesy, Thompson Products, Inc.

Fig. 160

DEPRECIATION

Depreciation is wear and tear that cannot be remedied by maintenance and repair work. Largely it comes about because buildings and machines grow old, and out of date. You buy new tires, tubes, spark plugs, points and other parts for your automobile. You wash, grease and oil it and have repairs made when necessary. All such work and expenditures are what we mean by "maintenance". But in spite of such work and repairs, your motor car gradually becomes less and less reliable and finally wears out. That is depreciation.

If you had planned to buy another car when the old one wore out, and every month had been putting away a few dollars for that purpose, you would be building up a "depreciation fund" which would provide you with enough saved up cash to buy your new car when the old one was worn out.

So it is with Joy. We expect to stay in business, but we know that our plants and our machine tools and other facilities will eventually wear out and will have to be replaced with new ones. From experience, accountants know what length of time to allow for each kind of building or machine tool to wear out. Therefore, as prudent managers we must set aside each month, as part of our necessary expenses, an amount sufficient to replace plants and machines as and when they wear out.

Last year Joy had to take out $219,938 for this purpose, in other words for "depreciation", a very necessary expense, as you understand. If the managers of a company "cheat" on this expense, then some dark day it will not have the machine tools and other facilities it needs to carry on its business and keep its employees at work.

$29,534,034

$ 2,723,512

$14,119,862

$ 657,756

$219,938

$ 264,212

$ 802,587

$ 956,068

$19,743,935

$9,790,099

$ 7,584,147

$ 587,499

$ 1,618,453

$ 9,790,099

Courtesy, Joy Manufacturing Company

Fig. 161

pose to be withdrawn when needed, the Company is able to *save* interest instead of *paying* it on borrowed money. The actual amount set aside is only a fraction of the total income, and has been lower than normal for several years. This surplus is *insurance* that helps guarantee the future of your job.

Tampa Electric Company included the following explanation of "earned surplus" in a message that was sent to employees along with a copy of the report to stockholders. The message covered questions employees might ask about the annual report to stockholders.

This is an amount totaling $3,911,863 that was left over from our revenues after paying our operating bills, taxes, interest, dividends and an allowance for depreciation. This represents an accumulation over a period of more than fifty years, and is the difference between the company net income and the dividends paid. It is not in cash but has remained in the business in the form of buildings, pole lines and other things the company owns.

If you successfully ran your own business, say a grocery, you would not pay out all you made, but would increase your investment to some extent by purchasing new counters, a new truck, more things to sell, or something of this sort. The stockholders of the company have done just that.

TELLING EMPLOYEES WHY PROFITS ARE NECESSARY

In one of the Republic Steel Corporation's annual reports to employees, the president's letter dealt directly with a common misconception: That business makes huge profits at the expense of its employees. A few paragraphs from this letter are given below to show the direct approach. The language is simple, the employees' viewpoint present. A basic principle of private enterprise is expounded but not preached about.

Republic Must Show a Profit

A great many people have the idea today that business in general makes too much profit. As a matter of fact, some people believe there should be no profit.

First, let me ask you: How much is "too much profit"?

Let's take a look and see whether Republic has made "too much profit."

In 1946 Republic had a profit of about $16,000,000. That means that on every dollar's worth of steel which you made and which was sold to the customer, the company's profit was 3.9 cents.

In other words, Republic made less than four pennies on each dollar of sale. To me that is not "too much profit."

That $16,000,000 was divided two ways. Part of it, as I have already told you—about seven and one-third million dollars—went to the stockholders as dividends. The other part—eight and two-thirds million dollars—stayed in the company for re-investment.

Now let's say you're a stockholder in Republic. You go to a broker and buy four shares of Republic common stock. Those four shares cost you (on the day on which this was written) $122.25. On that investment you would have received a dividend of $1.00 a share in 1946. Each three months you would have received exactly $1.00 on your four share investment of $122.25.

Does that sound as though the stockholder were getting rich? I don't think so.

I'm just going into these facts because you have been told by so many people that business makes huge profits at the expense of its employees.

* * *

What If Republic Made No Profits?

What would happen to you, working for Republic, if Republic year after year failed to make profit? Let's look at it.

The first thing that would happen, if Republic got the reputation of being a losing business, would be that nobody having money to invest would even dream of investing it in Republic. That would mean that we wouldn't be able to expand or to make major improvements in our plants.

Then we would find that other steel companies, who did make a profit, were expanding and making improvements, and making better steel.

Pretty soon our customers would leave us and start buying from other steel companies where they got this better steel. The business each year would become less. That would mean, of course, that each year there would be fewer jobs and less money to divide between the employees and the stockholders.

Only a Profitable Company Has Jobs

It wouldn't be very long before Republic might have to go out of business and the sixty-odd thousand jobs which Republic now has would come to an end. You know it's only the company that makes money that stays in business and has jobs to offer.

If I were working for a company that didn't make money, I'd go out and look for a job with a company that does make money. Profits are the best security you have for a steady job.

Another explanation of the importance of earnings, taken from the annual report of General Mills, Inc., addressed to stockholders and employees, is given below.

The Importance of Earnings

Surveys show that a majority of the public believes that so-called industrial "profits" average from 25¢ to 30¢ on each dollar of sales. The same surveys reveal that most people consider 10¢ on the dollar a fair return. *General Mills' net earnings last year were approximately 2½¢ on each dollar of sales.* Over the past 10 years our net earnings have averaged under 3¢ on the sales dollar.

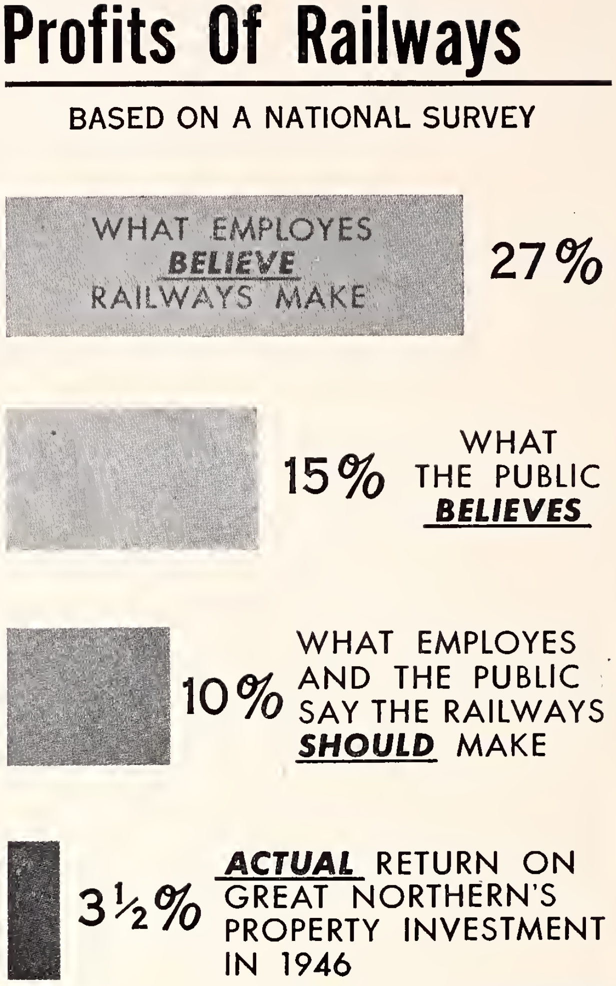
There is general misunderstanding, also, of what earnings really represent. As we have attempted to show in the "The Year in Brief" on page 3, earnings are actually one of the costs of doing business. They are the *cost of using tools,* including the "rent" we pay in dividends to stockholders for providing the *tools* (plants, cash, inventories, etc.), plus the necessary funds that must be reinvested each year in the company to provide new and better *tools* for future development and increased service. If there were no earnings over a period of years, growth and progress would cease; and stockholders would withdraw their support, since people cannot be expected to risk their savings, acquired in many cases through personal sacrifice, without the likelihood of reasonable rewards.

Thus earnings are the rewards for providing tools. As part of the cost of doing business, they must be recovered in the prices charged to customers. The provision for more and better tools, through consistent earnings, is the spark plug that insures an ever-expanding volume of goods and services. Without earnings, expansion and improvement are impossible; adequate service to customers suffers; and the possibility of increased income to wage and salary earners disappears.

Earnings reflect effective operating teamwork. They are not only necessary to the survival of the individual company, but essential to the maintenance of our American system of free competitive enterprise. For earnings are the life blood of industrial organizations, on the success of which our whole social order and common welfare depend.

ANOTHER DIRECT METHOD OF CORRECTING PROFIT MISCONCEPTIONS

The annual report to employees can refer directly to the misinformation that employees harbor and attempt to correct the false impression. For example, The Great Northern Railway used the following chart to show employees what they *believe* railways make and what the *actual* return on the company's property investment was in the year covered by the report.



Courtesy, Great Northern Railway Company

Fig. 162

Here's how Fruehauf Trailer Company, in a report to employees called *A Business Organization is Like An Individual—Like You,* handles the same problem.

> *Surveys show that the public—the average man or woman—believes that business concerns should make a lot more profit than they do.* Dr. Henry C. Link, who conducts The Psychological Barometer, an organization whose job it is to find out what people think on various questions, last summer asked 5,000 men and women across the country the following question:

"How many cents out of every dollar which large business companies take in do you think they should keep as fair profit?"

17% said less than 10¢
22% said from 10¢ to 19¢
20% said from 20¢ to 29¢
15% said from 30¢ to 60¢
26% said they didn't know

In other words, the average person thinks that a business concern should keep, as net profit, between 20¢ and 30¢ out of every dollar it takes in.

* * *

Our Net Profits Far Less than You'd Think. It is safe to say that few enterprises, if any, make such a profit as this, due to the competition that exists. Few make over 15¢ on every dollar they take in. The average is probably below 10¢. As for Fruehauf Trailer Company, we made a net profit of a fraction over 7¢ on every dollar of sales in 1946. We think you'll be interested to see the figures on just what we took in last year and what we paid out—also what we did with the 7¢ we made on every dollar of sales. Therefore, we present the following condensed statement of our business for 1946. It is known as a profit and loss statement and is really the same sort of record you might keep of your own income and expenses. . . .

EXPLAINING PROFITS IN PAYROLL TERMS

Another idea that is worth adapting in annual reports, is suggested by material used in the Allegheny Ludlum Steel Corporation's campaign mentioned at page 251. In a pamphlet entitled *Allegheny Ludlum Reports,* the company includes the following statement of receipts, costs and profits. It is essentially a simplified income statement that interprets profits in payroll terms; in other words, it reduces large totals to a unit that is familiar to the employee—a weekly average per employee. With such an average figure the employee can measure all items against a unit that he himself uses in calculating personal income and outgo.

We Make Fair Profits

Allegheny Ludlum has more shareholders than employees. The company's responsibility is divided between the two. We depend, for our tools and our ability to modernize, expand and create more jobs and easier work, upon our investors' capital.

HERE IS THE STORY IN:

WORDS . . . . AND FIGURES

		First Nine Months, 1946	
ALLEGHENY LUDLUM AND SUBSIDIARIES		Total Amounts*	Av. Amount For Employee Week Worked
RECEIPTS	All money received for products manufactured and sold and services rendered.	$67,188,038	$149.00
COSTS	Cost of raw materials, supplies, power, wear and tear on equipment and other costs (excepting wages and salaries) to make and sell our products.	$32,523,831	$72.13
	Federal, State and Local taxes, income taxes and corporation share of social security.	$4,013,325	$8.90
	Paid to employees.	$25,608,176	$56.79
	Paid to elected officers.	$483,567	$1.07
PROFIT	Earned for our 13,000 stockholders whose buildings, machinery and money we are using.	$4,559,139	$10.11
	This part of the profit was paid as DIVIDENDS to the owners.	$1,545,863	$3.43
	This part, the remainder, of the profit was LEFT IN THE COMPANY so we can grow and prosper, buy new equipment, provide more jobs and carry on in hard times.	$3,013,276	$6.68

*Subject to audit by public accountants at end of year.

Another example of this idea is reproduced below from the report to employees of Rochester Gas and Electric Corporation. The report was prepared especially to clear up certain misconceptions that were revealed in an employee survey. In previous years, the company had sent its employees only the usual financial report. This time, each employee received not only the employee report but also the report that was sent to stockholders.

Here Is the Company's "Cost of Living" on a Weekly Basis per Employe

The operations of the Company may be more easily understood if they are presented on the basis of an average week for the year 1946, with the weekly income and expense per Employe also shown. This will give a clear and easily understandable picture of the "Cost of Living" for the Company.

If we take the amount of money invested in the Company and divide it by the number of Employes we find that each man and woman on the Company payroll represents an investment of $40,000. In other words, each Employe is a $40,000 "business" for which somebody had to put up the money.

Here are the detailed figures showing how much the Company took in per Employe each week last year and what it went for:

What We Took In		
(Per Employe each week)		
Sales of Electricity, Gas, Steam, Appliances and Other Income		$196.30
What We Paid Out		
(Per Employe each week)		
Paid to Employes in Wages, Vacations, Pensions, Life Insurance, Company EBA Dues, Hospitalization, Sickness, etc.	$ 58.31	
Salaries for Officers and Superintendents	2.04	
Fuel (Less By-Products Sold)	30.15	
Purchased Power and Gas	5.32	
Other Materials, Supplies and General Expenses (Less Payroll and Taxes Charged to Plant Construction)	15.73	
Taxes (Federal, State, City, County & Town)	33.79	
Funds to Replace Worn Out Equipment & Other Losses	20.19	
Paid for Use of Bondholders' Money	11.14	
Paid for Use of Preferred and Common Stockholders' Money	17.02	
Total Paid Out	$193.69	
Net Receipts Reinvested in Business	2.61	$196.30

OTHER WAYS OF MAKING FIGURES UNDERSTANDABLE TO EMPLOYEES

Several techniques have been developed for reducing the large totals ordinarily reported in financial statements to a size that an employee can grasp. One that was introduced several years ago is to take the total assets and divide it by a figure that reduces the company to total assets of $10,000. All figures in the statements are then divided by this same divisor. In this way, a "little company" statement can be presented along with the actual figures. A separate column labeled "Little —— Company" carries the diminished figures. The same idea can be worked out by dividing each figure by 10,000 or some other round number.

The U. S. Steel Corporation used a similar idea in explaining the elements of operating costs in terms of a small business. See page 76.

Swift & Co. used the "small company" idea in a report to employees, by reducing the company to a one-employee-one-stockholder size. The story is reproduced below.

66,000 Employes—63,000 Shareholders

Every one of the 66,000 jobs provided by Swift & Company requires a lot of capital. Most of the money used in the company's business is furnished by the 63,000 people who own Swift & Company shares.

Who are the shareholders?

The ownership of Swift & Company is widespread. Shareholders include persons in practically every kind of position or occupation. Nearly 6,000 employes are shareholders. It requires votes of more than the 4,000 largest shareholders for a majority at a shareholders' meeting.

How jobs are made

In order to examine the place of the shareholders in relation to employes, suppose we are setting up a small business just like Swift & Company, except that it has only one shareholder and one employe.

The figures used below are for the average shareholder and the average employe in Swift & Company in 1946, assuming there are 66,000 of each. What does the shareholder do in order to create a job for the employe?

In the first step his money is used to acquire land and suitable buildings, equipped with utility services and machinery. Each employe has the benefit of using an average of $1,513 worth of buildings and equipment.

Raw materials bought for cash

Raw materials must be on hand. Livestock and other farm products and supplies are bought for cash.

It so happens this year the value of these inventories per employe also is $1,513, and they are purchased with money shareholders invest.

After the products are sold and delivered, the company must wait before it collects from customers. The shareholder's investment in products delivered but not yet paid for is $788 per employe.

In addition, the business must have cash to meet pay rolls, provide for emergencies, and to be ready to buy large amounts of livestock and other farm products in peak seasons.

Some of this capital may be met by borrowing instead of direct investment by the shareholder. After allowing for borrowings, the average shareholder investment in Swift & Company, including reserves, is $4,426. This is the amount of money the shareholder has put into the business to provide one job.

After the year's work is over, and employes are paid, $248 remains for the shareholder. This is equal to 5.6 per cent on his investment of $4,426.

Dividends of $170 are paid to the shareholder, and $78 is left in the business to take care of expansion, more expensive equipment, more costly inventories, or to provide for losses in bad years. The shareholder's earnings are equal to only 1.3 cents on the average dollar of sales.

It is apparent Swift & Company is NOT 66,000 very small businesses, but one business. The pooling of many small sums of capital, and the greater production that comes from each employe specializing in his particular job create a greater income than each could earn working alone.

EXPLAINING THE PLACE OF STOCKHOLDERS TO EMPLOYEES

The employees should know something about who owns the company and what their investment means to the workers. Some examples of such explanations are given below.

The first example is from an issue of *Arm-cooperator,* employee magazine of the American Rolling Mill Company, in which annual-report material was included. The cover of the magazine reproduced a photograph of an elderly, middle-class, motherly woman—a stockholder. On the inside cover her name and address and a brief sketch of her life were given. In the center of the same page was the following article:

Meet Your Stockholder!

By CHARLES R. HOOK, President

In 1900, there were 35 men—venturesome souls—who invested their savings in a new company, a steel mill called Armco. They were our first owners, our first stockholders. During the past 45 years our company grew; the number of employees increased, and so did the number of men and women who backed their faith in Armco with their money. At the beginning of 1946, we had almost 50,000 stockholders —1400 times the original 35 who risked their savings to start our company.

You probably know some of these 50,000 stockholders, these unseen owners of Armco. Among their numbers are the doctors who look after our families' health; dairymen who supply us with milk; teachers who instruct our children. Some are employees of Armco, and other companies. Some are widows whose only income is from wise investment of insurance funds. That little grocery store on the corner, the fruit market further down the street—the owners of such businesses helped finance our jobs. Their savings were accumulated by hard work and thrift; they entrusted them to us.

Let's take a closer look; how many shares do these frugal folks own? More than half of our 38,500 holders of common stock own less than 50 shares each; 75% have less than 100 shares. Those who own preferred stock are not few in number; there are 11,450 of them. Together, common and preferred stockholders own 3,691,245 shares of the common and preferred stock of The American Rolling Mill Company. It is their savings, their money which helps provide our plants, our tools, our jobs. They mean that much to us.

Why do they risk their savings in our company? For the same reason that an employee invests his time, his skill, his effort, in his job—to earn an income. Employees receive their income in the form of wages and salary. The stockholder, for financing our jobs, is entitled to a fair income on the money he has entrusted to us. We can pay him nothing unless there are profits, and there are no profits until after wages, salaries, materials, taxes, insurance, wear and tear, and many other items have been taken care of. We can never pay out to the stockholder all our profits because to keep our company sound and protect our jobs, we must use part of the money for buildings and equipment to keep our quality up, our costs down, and serve our customers so they will buy our product.

From our 1945 profits, our common stockholders received 80 cents per share; this totaled $2,295,003 and averaged $72 for each stockholder. The owners of preferred stock received $4.50 per share; a total of $2,024,736 which averaged about $177 for each. These were the average yearly incomes of our company's owners from their Armco investment.

Why should an Armco man or woman be interested in whether or not our stockholders received a fair return on their investment? The answer is clear. If there were not stockholders, you and I would not have a job at Armco. The stockholders own Armco. We work for them.

Here is another idea that fits into an explanation of who owns a company. It is excerpted from *Sunray News*, employee magazine of the Sunray Oil Corporation. This issue of the magazine also gave four pages of pictures and sketches of Sunray stockholders who lived in the vicinity of Fort Worth.

> . . . Surveys also show that the general public has a false impression regarding the amount of money the average stockholder receives on his investment, as compared with what the average worker receives. The truth is that workers now get about 71% of the total national income while stockholders get less than 3%. In 1929 stockholders received about 7% of the national income. In 1945 the average stockholder in 50 of America's leading corporations received only $191 in dividends.
>
> In 1945 the average Sunray common stockholder received less than $85 in dividend and the average owner of Sunray preferred stock received about $108. . . .

The following information from the employee report of the Rochester Gas & Electric Corporation aims especially at correcting a misconception among employees as to who owns the company. It has ideas in it that are readily adaptable where capitalization comprises more than one class of stock and bonds are outstanding.

How the Board Is Elected and Who Owns the Company

Our Board of Directors is elected by the common stockholders of our Company at the Annual Meeting held in June. The Board of Directors is the steering committee of the Company and is responsible to the stockholders for the operation of the Company.

Who owns the Company? In the growth of our business to its present-day standing, somebody had to furnish the large sums of money to buy the plants and equipment and thereby created the jobs we now have. In our case this meant that someone had to put up over $10,000 per Employe. How was and is this money normally raised?

About half the money to build the Company was put up by the bondholders, who are similar to the person who supplies first mortgage money to help build or buy your home. We have many bondholders who live not only in and around Rochester but also throughout the country. Many of our bonds are held by life insurance companies.

The preferred stockholders, who put up about one quarter of the investment, can be compared with the person who also has helped you buy or build your home and holds a second mortgage for his investment. We have thousands of preferred stockholders who reside in almost every state in the country.

The common stockholders, who furnished the remaining quarter of the money invested, are similar to the owner of a home who has made a down payment or other equity in the property. The common stockholders, therefore, are the "owners of the Company" in the same way that you may be the owner of your home, even though someone else may have a mortgage on it.

Who owns our common stock? The common stock of the Company is entirely owned by the General Public Utilities Corporation which took over the operation after the old defunct Associated System was reorganized by the Trustees of the Federal Courts. The General Public Utilities Corporation should not be confused with the former Associated Gas and Electric Company and Associated Gas and Electric Corporation, which no longer exist. The new parent Company is staffed by new men and its Board of Directors is composed of outstanding business and professional men of national reputation who are entirely different from and independent of the former officers and management of the old company.

The General Public Utilities Corporation, which owns our common stock, is in turn owned by over fifty thousand stockholders throughout the United States, many of whom live here in Rochester and include a large number of our own Employes. Thus some of the money paid to our common stockholders eventually comes home to our own Employes and to the people in the community who have invested their money in that Company. These people then are the real owners of our Company.

A boost for the capitalist system is given in the following paragraph, which is part of the stockholder picture in Joy Manufacturing Company's report to employees.

Are Joy Shareholders Capitalists? Yes, and So Are You!

Shareholders get the money to buy Joy stock by saving something out of what they earn. Instead of buying a costlier automobile, a bigger radio, a larger house, fancier clothes, richer food and drink, they do with less and use the money thus saved to buy our stock.

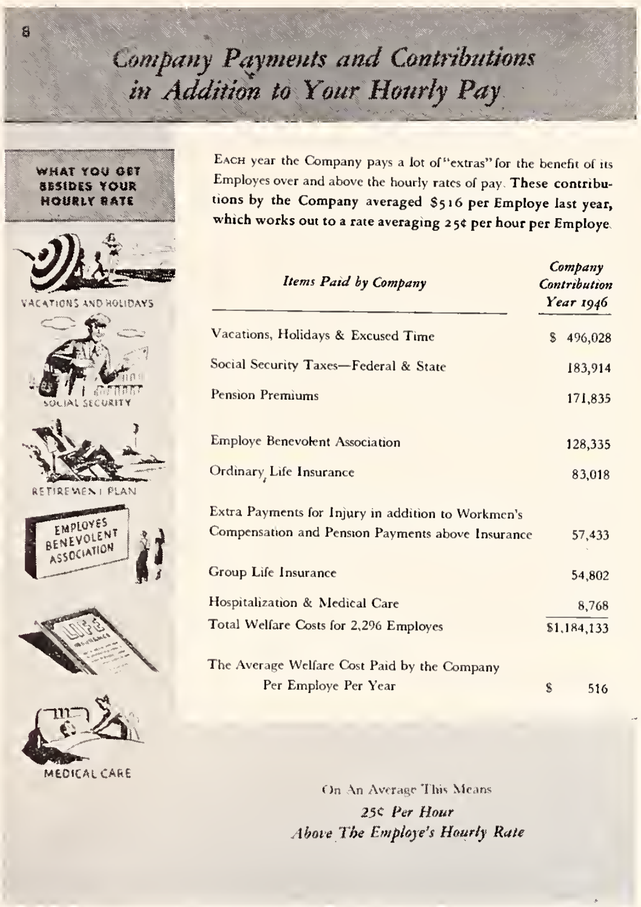
Such savings are called "capital" and the owner of the capital stock of a company like Joy is "a capitalist." In a broader and truer sense we are all capitalists. Your house, your ground, your furniture, your automobile and the rest of your possessions are your capital. You, as the owner, are therefore a "capitalist."

This is a "capitalist" country, because we thus own our possessions. We have a "capitalist" industry in the United States because millions of our people, all of whom are "capitalists," use a part of their "capital" to own and operate the most productive farms, stores, mines, and factories on this earth. And that is the reason why we, as a people, have the highest standard of living of any nation in the world. No other system in any country, at any time, by any other means has ever produced so much for so many at such little cost as our "capitalistic" business does in America.

HANDLING EMPLOYEE BENEFITS AND ACTIVITIES

In reporting to employees on benefit plans maintained for their security and other employee-welfare activities, these recommendations may help:

1. Present the facts without emphasizing the virtues of the company. Self-praise is always irritating. A statistical presentation of facts is shown in Fig. 163.
2. Evaluate what you are doing for employees realistically and report accordingly. Thus, if you are doing something new and worthwhile, bring the merits of the activity, not the company's generosity, to the attention of the employees. If you are doing what a number of companies are doing, note it modestly in the report. If the benefit is something that employees throughout industry generally share in—for example, Workmen's Compensation and Federal Social Security—employees may look upon it as a right and not as a special benefit.
3. Don't overestimate the employees' evaluation of future benefits. His first concern is with immediate satisfactions. Let him know what his opportunities are, if he has what it takes to get ahead.
4. Let your report build self-esteem among your employees. Recognition of accomplishment may mean more to employees than disability, life insurance and retirement benefits.


WHAT YOU GET BESIDES YOUR HOURLY RATE
VACATIONS AND HOLIDAYS
SOCIAL SECURITY
RETIREMENT PLAN
EMPLOYES BENEVOLENT ASSOCIATION
LIFE INSURANCE
MEDICAL CARE

8

Company Payments and Contributions in Addition to Your Hourly Pay

EACH year the Company pays a lot of "extras" for the benefit of its Employes over and above the hourly rates of pay. **These contributions by the Company averaged $516 per Employe last year, which works out to a rate averaging 25¢ per hour per Employe.**

Items Paid by Company	*Company Contribution Year 1946*
Vacations, Holidays & Excused Time	$ 496,028
Social Security Taxes—Federal & State	183,914
Pension Premiums	171,835
Employe Benevolent Association	128,335
Ordinary Life Insurance	83,018
Extra Payments for Injury in addition to Workmen's Compensation and Pension Payments above Insurance	57,433
Group Life Insurance	54,802
Hospitalization & Medical Care	8,768
Total Welfare Costs for 2,296 Employes	$1,184,133
The Average Welfare Cost Paid by the Company Per Employe Per Year	$ 516

On An Average This Means
25¢ Per Hour
Above The Employe's Hourly Rate

Courtesy, Rochester Gas and Electric Corporation

Fig. 163

REPORTING ON OPPORTUNITY AND RECOGNITION

If the company's policy is to recognize and reward proficiency and loyalty, a report on how the policy is carried out will interest every employee. In a McKesson & Robbins annual report to employees, two full pages were devoted to employee opportunity and recognition. One page explained the system for evaluating jobs and rating employees. The facing page showed how many promotions were made during the year. The copy read as follows; the illustration in Fig. 164 showed details of the promotions.

Many Promotions Made During Year

Advancements to Better Paying Positions—Training Programs Expanded

During the past year there have been 305 promotions to executive, sales and supervisory positions throughout the Company. In addition several hundred more promotions have been made to better paying positions in the office and warehouse. These promotions are the recognition and reward for those who have given proficient and loyal service to the Company. They represent fulfillment of the Company policy to make promotions based on merit from within the organization whenever practicable.

The Company expanded its training programs during the year for various executive, sales and clerical positions. The materials used in these programs are shown in the illustration at the right. Additional training courses are being planned.

All employees are encouraged to read books and articles about our business in order to prepare themselves for promotion. Many schools and colleges in cities where McKesson Divisions are located offer extension courses in accounting, foremanship, retailing, etc.

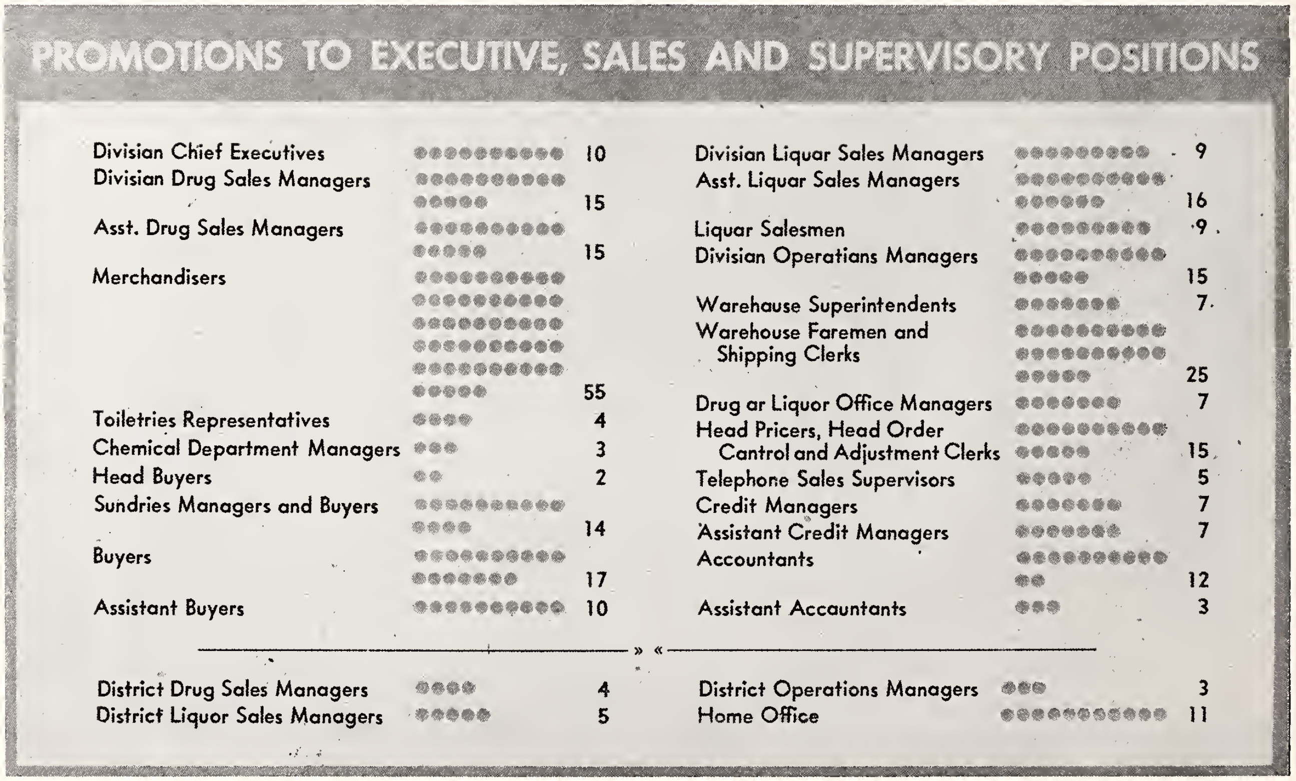
In the annual-report issue of *Beldenews*, employee magazine of Belden Manufacturing Company, two pages with a streamer head, "Important Assets Not Listed in the Balance Sheet of your Company," followed the simplified balance sheet. Employee recognition was their keynote.

On the even-numbered page was the story of "Sustained Productivity." It began with this statement:

> The whole theory of an ever higher standard of living is based on rising production. It should be universally recognized that the inherent skills of the trained worker do not change appreciably. His attitude, however, is a determining factor in his performance and in the quality of his work. The increase in production year by year and decade by decade results from improved technology, from research, and from higher investment per worker in better tools.

It ended with this statement:

> . . . with the same number of machines, and almost the identical number of operators, the gross



PROMOTIONS TO EXECUTIVE, SALES AND SUPERVISORY POSITIONS

Division Chief Executives	10
Division Drug Sales Managers	15
Asst. Drug Sales Managers	15
Merchandisers	55
Toiletries Representatives	4
Chemical Department Managers	3
Head Buyers	2
Sundries Managers and Buyers	14
Buyers	17
Assistant Buyers	10
Division Liquor Sales Managers	9
Asst. Liquor Sales Managers	16
Liquor Salesmen	9
Division Operations Managers	15
Warehouse Superintendents	7
Warehouse Foremen and Shipping Clerks	25
Drug or Liquor Office Managers	7
Head Pricers, Head Order Control and Adjustment Clerks	15
Telephone Sales Supervisors	5
Credit Managers	7
Assistant Credit Managers	7
Accountants	12
Assistant Accountants	3
District Drug Sales Managers	4
District Liquor Sales Managers	5
District Operations Managers	3
Home Office	11

Courtesy, McKesson & Robbins Incorporated

Fig. 164

weight of shipments from the Chicago plant actually increased 5.15% in 1946 over 1941. We can all be proud of the record of the past six years.

On the odd-numbered page was the story of "Team Spirit." This started with the following statement:

> The fundamental of effective operation is the group spirit so well demonstrated by really great athletic teams. The solo performers, regardless of their individual abilities, cannot equal the plus values inherent in a truly balanced organization. Below are a few incidents in Belden operations which exemplify the spirit that animates the organization when confronted with situations involving either operating or purely human relations problems.

Four short stories were given, of which the following was one.

> *Meeting Copper Emergency.* A serious copper shortage early in 1946 threatened sharply reduced production, employment, and profits. Rising to the emergency, the Purchasing Department operated round-the-clock. Salesmen became hunters and buyers of copper. Finished goods were exchanged for copper rod. Metal was obtained from diverse and remote places. It was in odd sizes, shapes, and packages. Engineers, machine operators, and others cooperated to overcome the obstacles of using the emergency material with a minimum of lost production. Result—6,000,000 lb.—nearly 30% of our 1946 output—obtained and fabricated to the benefit of customer, employee, and shareholder alike.

ACCIDENT INFORMATION

Workers should be given all the facts of accident frequency, accident-prevention activities and the care of employees injured on the job. Surveys show that misconceptions exist among employees as to how dangerous their work is. Only the facts will help clear up the mistaken impressions.

EXPLAINING MANAGERIAL COMPENSATION

Few companies give their employees information on compensation of executives. Yet every company that files reports with the Securities and Exchange Commission knows that information on compensation of their highest paid executives is available to the public. They also know that the unions get the figures and give publicity to them, that their unionized employees are therefore not in the dark as to executive salaries.

Management's job is to give the information and convince employees that the payments are fair. An illustration that shows management's compensation to be only a tiny portion of the great sales-dollar pie and labor's share a huge portion, is not likely to convince a manual worker who earns $60 a week that management is not overpaid. Nor does it help sufficiently to minimize the disparity between executives' salaries and wages by showing what is left to the high-salaried employees after income taxes are taken out. Certainly, management does not help the situation by suggesting that if the total of officers' compensation were divided among all the other employees, each worker's share would be inconsequential. The employee still thinks of what the executive is getting!

The way to justify executive compensation is to point out the great contributions of top management to the success of the business. Why not give information on how management has solved problems in perfecting the company's products, obtaining materials, reaching markets, meeting competition, creating new products, training personnel and the like? It can be done without appearing boastful. The excerpt from the Kaiser-Frazer report at page 49, for example, gives a concrete idea of what executive brainpower and ability really mean. The information was not included in the report ostensibly for this purpose, but it tells the story nevertheless.

PLANS FOR THE DEVELOPMENT OF THE BUSINESS

In the report to employees on management's plans for expanding its business, employee reactions must be considered. They may see the plans as opportunities for advancement or as greater job security. On the other hand, if the company has refused demands for higher wages on grounds of inability to pay more and about the same time plans expansion, employees may look at the move as an extravagance and example of poor management. An employer who cares about employee morale cannot afford to overlook labor's criticisms, no matter how unjustified they may be. A candid explanation to counteract such opinion may be all that is necessary.

"SELLING" FREE ENTERPRISE IN THE REPORT TO EMPLOYEES

The annual report is a logical medium for justifying free enterprise. However, an academic statement extolling the system will not be accepted by the workers—it may not even be read. Such generalizations have little bearing on the subject matter of the report—the operations of a particular company and their importance to its employees. Most workers believe in free enterprise and resent being preached to about it. The vast majority of employees cherish the principle of freedom of the individual that is basic in the system, as much as their employers. All that employees want is a greater share in the profits of business.

Employees undoubtedly need a better understanding of the fundamentals of private enterprise to see why their share of the company intake must have a sound relationship to other costs. An uninterrupted educational campaign may be the answer. The annual report can do only a small part of the educational job. It can include a deliberate message on the subject, or it can link the various subjects reported upon to a basic free-enterprise principle. In either approach, the employees' viewpoint must be kept foremost. They must see how they and their jobs fit into the overall pattern. An example of a direct statement is given below. It is taken from an annual report issue of *Mallory Life,* employee magazine of P. R. Mallory & Co., Inc. Examples of indirect selling of free enterprise as various subjects are reported upon, are given throughout this book. To locate them, look in the index under "free enterprise."

A Good Time to Take Stock

Companies keep records and issue reports about the bare facts of business for three good and sound reasons. They want to know where they've been, where they are, and where they're going in terms of production, sales, profits and so on.

These records and reports are made in terms of figures and dollars. But there are a lot of facts of life about companies and business, and about our whole economic system, that can't be recorded or talked about in figures and dollars alone.

We've already set forth the figures and dollars that tell that part of the Mallory Company story as it stacked up at the end of 1946. Now is a good time to take stock of some of these other things.

For instance, it is certainly worth noting that at the end of our first postwar year the United States is just about the last place in the world where a company like ours can exist. Ours is also the only remaining nation in the world where the freedom and rights and dignity of each individual are still preserved and protected.

These two facts are related. History is full of examples to show that people are only free to *live* as they please when they are free to *work* as they please under law.

No other system of living and working together has ever been devised which better served its citizens. And no other system has ever rewarded its people as generously as ours with freedom, with money or with goods. Yet we have persons, even within this country, who want us to trade our system in for some other one.

Only one answer is necessary to meet such nonsense. That answer is to make our system of living and working together function even better. And we at Mallory can do just as much to provide that answer as the men and women who make up any other group in our society. We can do it by continuing to improve our way of doing things—by providing *more* of the things we make; by producing still *better* things; and by producing them for *lower costs* —so that we can *sell more* of the things we produce and therefore have more returns to *divide* as a reward for our effort.

Now let's take stock of another fact. Some people have the cock-eyed notion that "management" and "stockholders" have a different stake in this process than "labor" has. Let's look at our own facts and figures for 1946 for the answer.

Mallory workers had a 52 cent stake in every dollar the Company took in. Management had a 1 69/100 cent stake in each dollar. And the stockholders had a 2 33/100 cent stake. If we could have made and sold one more dollar's worth of goods the workers would have gotten 52 cents of it. If we could have produced and sold another million dollars worth of goods the employees would have gotten over a half million dollars of it—and probably more because we could have shaved a few pennies off other costs like overhead, operating expenses, etc. All of us would have gained. No one would have lost.

It's a matter of simple, hard-headed arithmetic that management, stockholders and employees have a *common* stake in this whole industrial process. On this score the Mallory management believes in the doctrine of high wages, hand in hand with greater efficiency and lower cost of production, as the one way to increase this common stake, and the fairest way to share it. To our way of thinking the road that leads to greater progress for the Mallory Company is the same road that leads to more and better income and security for all the people who have a stake in the Company. There is no such thing as one road for labor and another road for management. They must pave the one highway of production and travel it together.

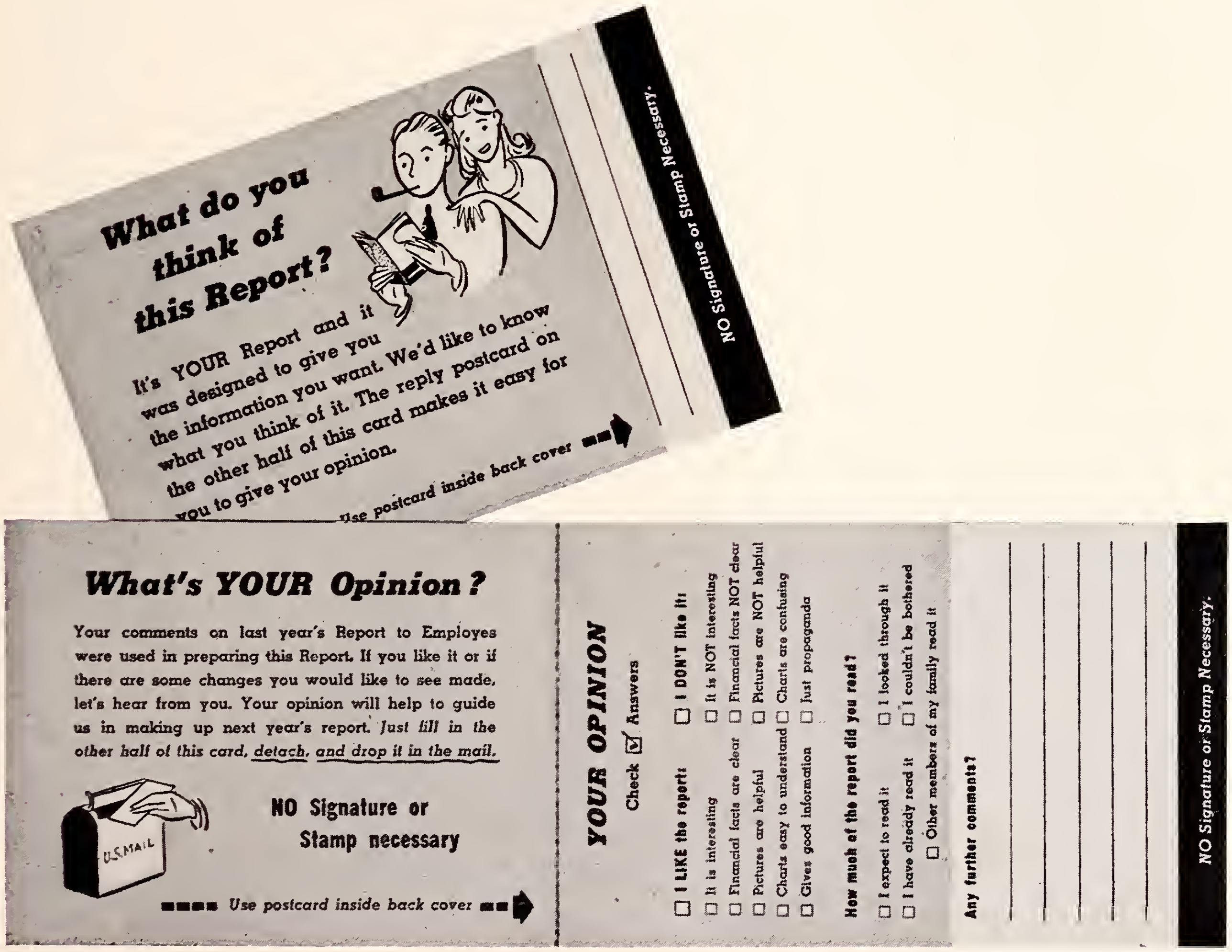
When we come to the where-do-we-go-from-here part of our stock-taking, the challenge is obvious. We are now in a postwar competitive economy. The chips are down. We have plenty of problems yet to solve. They are all common problems to be tackled together. But we have very few if any problems that greater and more efficient and less costly production won't solve. And the limits of progress for ourselves, our Company, our economic system or our nation are nowhere yet in sight.

(signed) J. E. Cain
President

GETTING EMPLOYEE SUGGESTIONS FOR THE ANNUAL REPORT

Until more effective methods are used for finding out what the employee really wants to have in the way of an annual report, the company may have to depend upon what it discovers through a simple request for the information.

One technique is that used by General Motors Corporation. It slipped the card illustrated in Fig. 165 into the report to employees. The smaller portion (*What do you think of this Report?* with *What's Your Opinion?* on the reverse side) appeared early in the report. The business reply card portion appeared toward the end of the report.



What do you think of this Report?

It's YOUR Report and it was designed to give you the information you want. We'd like to know what you think of it. The reply postcard on the other half of this card makes it easy for you to give your opinion.

Use postcard inside back cover

NO Signature or Stamp Necessary.

What's YOUR Opinion?

Your comments on last year's Report to Employes were used in preparing this Report. If you like it or if there are some changes you would like to see made, let's hear from you. Your opinion will help to guide us in making up next year's report. *Just fill in the other half of this card, detach, and drop it in the mail.*

NO Signature or Stamp necessary

Use postcard inside back cover

YOUR OPINION

Check ☑ Answers

☐ **I LIKE the report:** ☐ **I DON'T like it:**
☐ It is interesting ☐ It is NOT interesting
☐ Financial facts are clear ☐ Financial facts NOT clear
☐ Pictures are helpful ☐ Pictures are NOT helpful
☐ Charts easy to understand ☐ Charts are confusing
☐ Gives good information ☐ Just propaganda

How much of the report did you read?

☐ I expect to read it ☐ I looked through it
☐ I have already read it ☐ I couldn't be bothered
☐ Other members of my family read it

Any further comments?

NO Signature or Stamp Necessary.

Courtesy, General Motors Corporation

Fig. 165

Champion Paper and Fibre Company included the following statement and card in a report to employees.

After we presented the Fiftieth Anniversary Report to employees last year, we asked them to tell us how they liked it. Here are the results, compiled from the replies to the questionnaire.

Ninety-four percent wanted a new report this year.

Ninety percent said last year's report was easy to understand.

Two-thirds discussed the report with families, relatives, friends.

Nearly half talked it over with fellow employees.

Most of the people who replied to the question had good suggestions for this year's report and we have tried to include as many of them as practicable.

You'll do us a further favor—if you'll fill out the attached card and *drop it into the nearest suggestion box*.

____
(Date)

Did you like Annual Report to Champions, 1945? Yes No

Did you find it: Easy to understand? Hard to understand?

Do you want another report to employees next year? Yes No

How many people *besides yourself* have looked over your copy so far? ______ *(Number)*

Your remarks and suggestions will be helpful and will be accepted in the same cooperative spirit in which they are given:

____

____

____

____
(You do not need to sign your name, but you may if you wish)

The following questionnaire, in the form of a business-reply card, accompanied the report to employees of the New York Central.

It will be helpful if, after you have read the REPORT to the Men and Women of the New York Central, you will fill in and return this card—or, if you care to comment more fully, write me.

F. E. WILLIAMSON

1. Is it clear?	Yes	No
2. Does it add to your knowledge of the Company?	Yes	No
3. Do you like the form of the Report?	Yes	No
4. Would you like to have such a report each year?	Yes	No
5. If so, would you like to know more about:		
Operations	Yes	No
Taxes	Yes	No
Employes	Yes	No
Finances	Yes	No
Equipment	Yes	No

INVITING EMPLOYEES TO ASK QUESTIONS

Many annual reports invite the employees to ask questions on the report. In such cases, the report should clearly indicate whom the employees should go to with their questions, and the company should be sure that those to whom the employees are referred are prepared to answer the questions. An illustration of how this may be done follows. In its first report to employees, The Studebaker Corporation said, "If you have any questions about it, ask your supervisor. He either has or can get the answers for you." A day before the report was released, the company held a series of three meetings, a luncheon meeting of night-shift supervisors, a dinner meeting for supervisors in South Bend and another of supervisory people in the Los Angeles assembly plant. The annual report to employees was distributed to the supervisors present and discussed. Supervisors left feeling prepared to answer questions that employees might ask.

ONE REPORT OR SEPARATE REPORTS?

The preceding discussion may help employers weigh the arguments that are presented in favor of a single report addressed to stockholders and employees (and others), against those offered in favor of separate reports.

Before presenting the arguments in summary form, it is well to point out that many annual reports that have been addressed to stockholders and employees have been prepared principally as reports to stockholders. The employee has been added in the salutation, but the report itself has not been written with his interests in mind. On the other hand, many reports that have been addressed exclusively to employees have been justly criticized as "kindergarten stuff" that is insulting to the employees' intelligence. As a result, the trend has been toward writing one report to serve for stockholders, employees and any other audiences.

The arguments below are presented with the assumption that if one report is used, it will be prepared to satisfy the needs of both stockholders and employees, and that if separate reports are written, the best techniques will be used for each.

Arguments in favor of a single report

1. Employees and stockholders have the same interests in the company and one adequate report should suffice.

2. A single report emphasizes the community of interest between stockholders and employees. A combined report, written for both employees and stockholders, can subtly serve a double purpose. A section of the report can, for example, stress the employees' contributions to the business. These paragraphs will not only help build worker morale but will also suggest to the stockholders how important a constructive labor policy is to the company's earning power. Another section can, similarly, let the employee know that his job would not exist without the capital invested by stockholders.

3. A combined report recognizes the fact that many employees are also stockholders. To the employee who is not yet a stockholder, a well prepared report will suggest the desirability of sharing in the ownership of the company.

4. Employees and stockholders have equal ability to read and understand annual reports. One group is no better educated than the other, as a whole. Therefore, no special techniques are necessary for telling the story to the employees. Furthermore, an intelligent employee is gratified when he receives a copy of the same report that stockholders get. He realizes that management considers him capable of understanding the information issued to stockholders.

5. A single report avoids any suspicion on the part of the employees that information has been deliberately withheld from them. Also, it prevents labor-union leaders from comparing the two reports, finding omissions in the employees' report and stirring up trouble over differences that are really inconsequential.

6. A separate report may be discounted as propaganda.

7. A single report saves both time and money.

Arguments in favor of separate reports

1. Management may not have the same objectives in reporting to stockholders that it has in reporting to employees.

2. Employees have been reached by labor unions through certain tested techniques. The annual report is one medium for counteracting union versions of business facts. If union techniques have proved effective, some of the same techniques ought to be used by the employer. Those techniques are not suitable for reporting to stockholders.

3. Suspicion that the stockholder report contains information that is to be kept secret from the employee can be easily overcome. The annual report to stockholders may be made available to employees. Employee reports can be offered to stockholders.

4. Some subjects are of greater interest to stockholders than to employees, and vice versa. For example, employee relations do not interest stockholders as much as they do the employees. On the other hand, product information interests the stockholders more than the employees.

5. Stockholders and employees have different viewpoints even where both have interest. For example, labor looks at the net profit, dividends and reserves in one way, the stockholders in another. The explanation of such items must take into account the different viewpoints. This is done better through separate reports.

The answer undoubtedly is that for some companies separate reports are necessary, while for others a single report will serve. The choice must take into consideration the conditions in the particular company.

WINNING PUBLIC GOODWILL THROUGH THE ANNUAL REPORT

Every corporation that publishes an annual report to stockholders must recognize the potential power of the report to affect the company's relations with the public, whether it is designed to do so or not. The man in the street may never see a copy of the report to stockholders, but he does read newspapers and magazines and listen to the radio, his minister and perhaps a campaigning politician. These media get much of their information about business from corporation reports and then pass the material on to their readers and listeners.

The report, furthermore, is a printed document on a subject of perpetual interest to the public—corporation profits. Once in the hands of the stockholders, it has already reached a part of the public. Willy-nilly, copies will get into the hands of nonstockholders. If the company deals with a union, or if unionization of its employees is in prospect, the report will undoubtedly be examined by labor leaders, who influence a sizable segment of the public.

Because an annual report is by its nature a public-relations instrument and is read by the leaders of public opinion, it offers an excellent opportunity for a corporation to carry its message to a wider audience than its stockholders and employees. The men who prepare the report can address this secondary audience more effectively if they first understand its attitudes toward all business in general and their business in particular. For this reason, it is worthwhile to study the results of mass-opinion surveys. Some of these have been referred to in Chapter 2.

A company that ignores the public-relations value of the report is overlooking an opportunity to build goodwill. It may, indeed, inadvertently be creating misunderstanding for itself and for business generally if it does not present its story with public attitudes in mind. In this chapter, ideas are offered for winning public goodwill.

THE PUBLIC'S INTEREST IN ANNUAL REPORTS

The annual report should be conceived of as serving two functions in public relations: (1) To tell the public how business—and this particular business—works in our economy, (2) to reflect the company's general and specific concern for the public.

SETTING THE PUBLIC RIGHT ABOUT BUSINESS

Reference has been made in Chapter 2 to the false notions held by the public concerning business profits and to its lack of confidence in business reports on them. This ignorance and misunderstanding lead, of course, to an unhealthy attitude toward business, to an antagonism toward free enterprise and a clamoring for government regulation of business in one way or another. Under these conditions, every annual report should have this as a primary purpose: To publicize the facts so clearly, completely and convincingly that they will dissipate false notions.

Obviously, if a businessman feels that the public's attitude toward his business will be improved by an understandable presentation of the facts, he will use every means at his disposal to make the facts known. Just as obviously, if he does not feel that a clear statement of the facts will help, he should question his way of doing business. In other words, the public's attitude toward business in general is the result of its understanding of all the enterprises that make up the institution we call business. Each businessman must inquire whether he is contributing to a favorable or unfavorable attitude. Each must see that when facts are given to the public, they are clearly stated. The impact of these facts should be favorable if the business is being conducted properly in a society that recognizes the freedom, rights and dignity of each individual.

Every report that is brought out should be regarded as an opportunity for explaining how the free-enterprise system has been furthered by the operation of the business and how this furthering has helped the public welfare. This job of justifying free enterprise is one that cannot "be left to George," for, mind you, the enemies of free enterprise are skilfull and disingenuous.

Since public attitudes change from time to time, it is advisable to know, when writing the report, what the general public is then thinking about business. One way of getting the facts is to follow the published surveys of public reaction. Another is to participate in the sponsorship of public-opinion surveys. A third is to give attention to what the trade papers of the industries you serve are saying about policies and practices in your field.

MAKING A REPORT REFLECT CONCERN FOR THE PUBLIC

To earn public goodwill, a report must be written with these audiences in mind: (1) The groups to whom the report will be sent (see page 282), (2) the general public. The contents of the report may reflect the company's concern for the public in one or more of the following ways:

1. The plan of the report.
2. Its salutation.
3. Inclusion of a statement of public-relations policy.
4. Coverage of public-relations activities.
5. Report of company-community coöperation.
6. Educational material in the report.
7. Business policies.

Each of these methods is discussed and illustrated below, with checklists where appropriate.

THE PLAN OF THE REPORT

A company may select a public-relations theme in planning its report. Some examples are:

1. *The opportunities offered by the territory served.* Many of the public utilities and railroads publicize the territory they serve. For example, the San Diego Gas & Electric Co. serves San Diego. Interspersed in the narrative of one of its reports are facts, figures, beautiful color plates and maps that show what San Diego offers and is planning to offer to its citizens. Several of the company's national advertisements that have been used to attract industry to San Diego are reproduced in the report.

In a report of the Lehigh Coal & Navigation Company, the community is a secondary theme. Nothing is said directly about the community, but a number of photographs of community life, with descriptive captions, are included in the report. The cover itself is a bid for community goodwill; it is a photograph of the Easter parade at Lansford, one of the communities in the heart of the company's coal-producing properties.

2. *Every citizen is a customer.* A company whose products touch various aspects of American life, the American Box Board Company, used this theme with the introductory caption: "Our Customers—the Public." The company regards its own activity, as packager, protector and carrier of the public's goods, as an essential public service. The report shows how intimately its operations are tied in with the American way of life. It describes in the narrative and by photographs how its products serve in bringing food to the public, in maintaining the American standard of living (packaging of household goods), in keeping the nation well-clothed (boxes for wearing apparel), in education and business (packaging of educational products, shipping cases for office equipment), in play (containers for sporting goods), in improving health (packaging for medical materials) and in transportation.

3. *The company helps build America.* Sunshine Biscuit Co. used this theme with a play on its name: "Sunshine helps build America." The first half of one of its annual reports was devoted to showing in few words but with fine illustrations, how this company, with its plants, products and employment, helps to build America.

INCLUDING VARIOUS PUBLICS IN THE SALUTATION

Most of the annual reports that reflect a concern for the public are, nevertheless, merely addressed to the stockholders. A few companies do make the salutation more inclusive. For example:

Pullman Incorporated opened a report as follows: "The Board of Directors of Pullman Incorporated presents herewith its report for the year 1946, for the information of Pullman Stockholders, for users of Pullman Service and Products, and for all Americans interested in the accomplishments of private enterprise."

Jewel Tea Co., Inc., addresses its report "To Stockholders, Jewel People and the Public."

General Foods Corporation sends its report "To the Members and Friends of the General Foods Family."

The Haloid Company says, "To Haloid stockholders, fellow workers, and customers."

STATEMENT OF PUBLIC-RELATIONS POLICY

The mere inclusion of a statement of public-relations policy shows that the company is desirous of making friends among the public. Such a statement will usually reveal the company's attitude toward public relations and will show how its policy is being carried out. The following excerpt from a section called "Making Friends of Customers," in the report of the Cincinnati Gas & Electric Company, illustrates part of such a statement.

> We have learned that it is by no means sufficient to provide adequate service of quality beyond criticism, and at rates among the lowest in the nation, in the hope that these things will speak for themselves. We find it advisable to tell our story to our customer public endlessly, by every publicity medium available—radio, the daily press, bill board, direct mail, and personal sales efforts. We have a story of dependable low cost service which is worth telling, but it won't tell itself. Every line of our publicity is expressed in terms of the customer's interest, picturing what the Company does *for the customer* in the way of service, convenience and labor saving, at low cost. More than this, in our newspaper and radio publicity we offer helpful information for which our customers are grateful—suggestions for the better use of gas and electricity, recipes, household hints, and other practical services. As a Company, we realize our obligation of good citizenship in each community we serve, and our duty to participate in all activities of a civic or community nature.
>
> We look upon our public relations program as business insurance—as a sound means of maintaining a favorable attitude towards continued profitable operation of the Company. In addition to its public relations program, the Company also invests in business promotion advertising. Gas and electricity must be sold like any other commodity. . . .

COVERAGE OF PUBLIC-RELATIONS ACTIVITIES

A company's public-mindedness is also shown in its public-relations activities. Some companies report quite fully on such activities in the annual report. A number apparently keep silent about their public-relations programs. It would seem logical that if management considers public relations important enough to spend money on improving them, it should report in detail upon what it has done.

A page or more of clippings about the company is another way of reporting on public relations. Mentioning how many times the company was in the news also reflects a lively interest in gaining public favor. Westinghouse Electric Corporation reported one year that more than 4000 newspapers, general magazines and trade publications carried news stories and special articles during the year on Westinghouse activities in the fields of research, engineering and production.

CHECKLIST FOR PUBLIC-RELATIONS ACTIVITIES

The following checklist is suggestive, rather than exhaustive, of public-relations activities that might be covered in annual reports. A separate checklist is given below for public-relations activities directly affecting the community in which the company operates.

1. Public tours of company properties.
2. Educational tours for school students.
3. Distribution of company literature to the public.
4. Reprints of advertisements explaining service problems to the public.
5. Talks by company officials on the position and problems of the company and the industry.
6. Coöperation with industry-wide public-relations programs.
7. Displays at public fairs and contributions toward comfort of the public at such fairs.
8. Permanent educational exhibits.
9. Promotion of company's products through group meetings, schools, institutes and home demonstrations.
10. Public fellowships and scholarships offered by the company.
11. Loans of company property for public events.
12. Games won by company's athletic teams.
13. Awards to company by government and community groups.

14. Institutional advertising to create better public understanding of general business facts.

CHECKLIST FOR COVERING COMPANY-COMMUNITY COOPERATION

The following checklist may be used in reporting upon company-community coöperation to promote industrial, commercial and cultural progress in the area.

1. Status of company-community relations.
2. What the company is doing to promote community understanding.
3. Proportion of community people employed by the company.
4. Company expenditures in the community and its patronage of local business.
5. Representation of employees in civic life.
6. Community activities in which employees and executives are active.
7. Employee tours to projects maintained by community-fund contributions.
8. Company program to promote industrial and community development.
9. Growth of the area served by the company.
10. Analyses of territory served, agricultural interests, industries and other items of interest in the area.
11. Company's efforts to attract new business to the community.
12. Coöperation with chambers of commerce and business bureaus.
13. Development of new industries.
14. Booklets supplied by company in its community-development program.
15. Reprints of advertisements publicizing the territory served.
16. Projects undertaken in conjunction with civic and government groups; for example, company sponsorship of 4-H Electric Club, student contests, efforts to improve forestry practices.
17. Contribution of "perimeter parking lots" by transit company to relieve downtown congestion.
18. Meetings of board of directors with businessmen and civic and industrial leaders in territory served by the company.
19. Future plans for community coöperation.

EDUCATIONAL MATTER

A company with a broader audience in mind for its annual report than its own stockholders may devote a substantial part of the report to educational material. A drug company, for example, included a four-page story on the origin and development of newly discovered drugs. The public has an appetite for such stories. A manufacturing company included the story of its products from the raw materials stage to it's-ready-to-use state. Another example of interesting educational material is given at page 29.

BUSINESS POLICIES

Real concern for public welfare may be shown in statements of business policy like those discussed at page 23. A good example is given in the excerpt from a General Motors Corporation report at page 60. The statement reflects an aim to achieve lower prices and higher quality, both of which directly benefit the public. The statement at the same time explains some important economic truths.

GETTING THE REPORT TO THE PUBLIC

To gain public goodwill through its annual report, a company must not only prepare the report with that objective in mind but must see that the report reaches the public. The following ways of publicizing the report are discussed below:

1. Distribution to special publics.
2. Publicity in the press.
3. Paid advertisements.
4. Radio and television.

THE LITTLE PUBLICS OF A BUSINESS

Nearly every company that publishes an annual report has several little publics, beyond its stockholders and employees, among the following groups:

1. Those who give investment advice.
2. Those who publish financial information.
3. Those who extend credit.
4. Users of the company's products and services.
5. People in the community, if the company is identified with it.
6. Labor organizations.
7. Students of business.

In these groups are the people to whom a company will want to send its annual report if it is eager to spread its story. For purposes of building up a mailing list of such people, the following enumeration[1] may be helpful. It is arranged in the order in which the groups are most frequently included on mailing lists of companies that distribute their reports widely.

Banks and bankers.
Brokers, investment houses, counselors.
News, financial and trade publications.
"Requests."
Customers, distributors, suppliers.
Educators or educational institutions.
Community leaders, clergy.
Employes, supervisory employes, executives.
Executives of leading companies.
Libraries.
Statistical agencies.
Public officials.
Other companies in industry.
Insurance companies.
Business acquaintances of executives.
Farm and labor organizations.
Trade organizations.
Stock exchanges, members.
Government agencies, SEC, ICC.
Advertising agencies.
Creditors.
Credit organizations.
Credit-opinion makers.
Members of underwriting group.
Radio talent.
Public-relations directors.
Prospects.
Schools of business administration.
Controller institutions.
Utility executives.

DISTRIBUTING THE REPORT IN THE COMMUNITY

A company that pays close attention to its community relations will usually distribute its annual report to strategic points and people in the locality. The Caterpillar Tractor Co., for example, has been outstandingly successful in community relations. It maintains a mailing list of 7300 local community leaders in the fields of civics, government, education, religion and agriculture. The annual report is just one of the company publications that are sent to these people. In addition, the report, as well as other company literature, is placed in doctors' and dentists' offices, barber shops, beauty parlors, billiard rooms and bowling halls to get the attention of residents of the community.

The Champion Paper and Fibre Company distributes its employee report, rather than its financial report for stockholders, to several classes of people, one of which includes businessmen in the cities in which the company operates plants. The following is an example of the type of letter that accompanies the report.

Dear ——:

Enclosed is a copy of the 1946 Annual Report to Champions, now being distributed to the Company's 6880 employees at Hamilton, Canton and Houston.

The Report presents in graphic form the growth and development of the Company over the last ten years. The sales value of our products has more than doubled in this time, with a corresponding rise in costs. Employees, with a 20% increase in numbers, were paid more than twice as much in 1946 as they received ten years ago. Pictured, too, is the increase in Company tax money going to the support of our government during the war years. The importance of the common stockholder in Company operations is explained.

Champion's outlook for the future is bright. The Report indicates that $5,000,000 was spent last year to modernize and expand plant facilities. During the coming year additional large expenditures will be made to complete the program, intended to maintain the Company's competitive position, assure customers of more and better products, and provide continued opportunity for Champion employees and protection for the stockholders' investment.

The Report gives recognition to the many employees who have had long continuous service with the Company. Figures show that of Champion's 6880 employees, more than 41% have records in excess of ten years.

We hope that you find the Report of interest, and that it will give you an insight into the personality of Champion and the policies that have made this Company one of the leaders in the industry.

Yours very truly,

WAYS OF TRANSMITTING THE REPORT

A few companies attach a card of the official sending the report. Others have a brief message from the president printed on a small card with a flap that fits over the cover of the report. Electric Boat Company used the following miniature, processed letter of transmittal.

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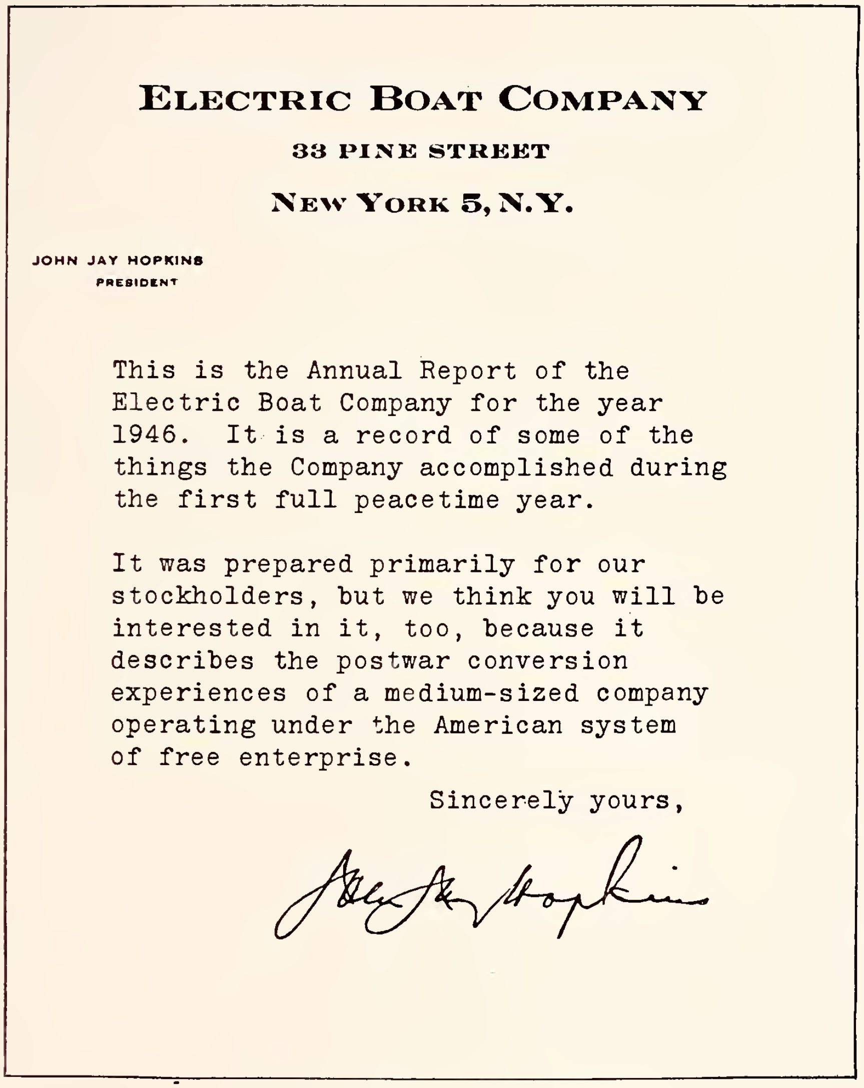
[1] From *A Survey of Stockholder Relations Activities,* prepared by Verne Burnett, Public Relations Consultant, in coöperation with Association of National Advertisers, Inc., and *The Journal of Capital.*



ELECTRIC BOAT COMPANY
33 PINE STREET
NEW YORK 5, N.Y.

JOHN JAY HOPKINS
PRESIDENT

This is the Annual Report of the Electric Boat Company for the year 1946. It is a record of some of the things the Company accomplished during the first full peacetime year.

It was prepared primarily for our stockholders, but we think you will be interested in it, too, because it describes the postwar conversion experiences of a medium-sized company operating under the American system of free enterprise.

Sincerely yours,

Fig. 166

The Borden Company supplies its local managers in communities where the company operates, with form letters for transmitting the reports to: (1) Employees, (2) officers of milk producers' organizations, (3) officers of consumer groups, women's organizations, and so forth, (4) Chamber of Commerce officials, presidents of local business and service clubs, local bankers, key public officials and other community leaders, (5) school principals and educators. The local managers may use the letters if they wish, or may send out the report with a business card enclosed. Best results have been obtained by typing or autotyping letters of transmittal individually. However, where this is not practical, mimeographing is used.

A sample of each of the letters to the five groups mentioned is reproduced below.

To employees

Dear Pete: (or)
Dear Mr. Jones: (or)
Dear Employee:

The day when the customer can pick and choose is back. As customers, you and I are glad of it. We like to shop around—to make sure we are getting the most for our money.

The people who buy the many products sold by Borden's feel the same way. They want to know what they are spending their money for. They also want to know about the company whose products they buy. Only as long as our customers are convinced that we give them the best in service and products, will we maintain the leadership that keeps our company sound and our jobs secure.

I am enclosing a copy of Borden's 1946 Annual Report to Employees and Stockholders. Attached to it is an introductory note from our company's president—Theodore G. Montague. This message and the report contain much information that will interest you. The report also will help you answer questions of friends and customers about Borden's and its products. If you need additional copies, I shall be glad to supply them.

Sincerely yours,
Signature
Title

To officers of milk producer organizations

Dear Mr. ——:

Since Borden's is an important market for farmers in this area, I know you are interested in the activities of my company. The attached copy of our Annual Report gives you the latest information about our operations. It covers not only milk and milk products, but also our many units outside the dairy business. Some of these are of special interest to you and others in the farm field.

Sincerely yours,
Signature
Title

To officers of consumer groups, women's organizations, and so forth

Dear Miss ——: (or)
Dear Mrs. ——: (or)
Dear Madam ——:

Consumers today want to learn all they can about the things they buy and the companies that make them; and they are particularly interested in finding ways to make better use of products.

The attached copy of my company's Annual Report includes information about our operations and products. I believe you will be especially interested in the article about the Borden Kitchen. There our staff of home economists tests our products under home conditions. I will be pleased to hear any comments you may have.

Sincerely yours,
Signature
Title

To chamber of commerce officials, presidents of local business and service clubs, local bankers, key public officials and other community leaders

Dear Mr. ——: (or)
Dear Mrs. ——: (or)
Dear Miss ——:

Since the progress of this community depends so much on the businesses that operate here, I know you are always interested in the activities of companies like mine.

With this in mind I am enclosing a copy of our Annual Report. It gives you the latest information about our operations. You also may be interested to know that in —————— last year our company
Name of State
spent $—— for raw materials, salaries and taxes—in addition to expenditures for other purposes.

Sincerely yours,
Signature
Title

Note to local Borden manager: The information for filling in the blank space in the last sentence of the above letter is in the P. R. Memo headed "DATA ON BORDEN SPENDING."

To school principals and educators

Dear Mr. ——: (or)
Dear Miss ——: (or)
Dear Mrs. ——:

Last spring—for the first time—we sent copies of our company's Annual Report to educators in this area. The response was so favorable we are distributing them again this year.

Teachers of economics, home economics, social sciences and many other subjects wrote us that they used our report in the classroom. Some said it was useful in discussing the activities of a typical American business; others found the report helpful in showing how companies contribute to the economic life of communities in which they operate.

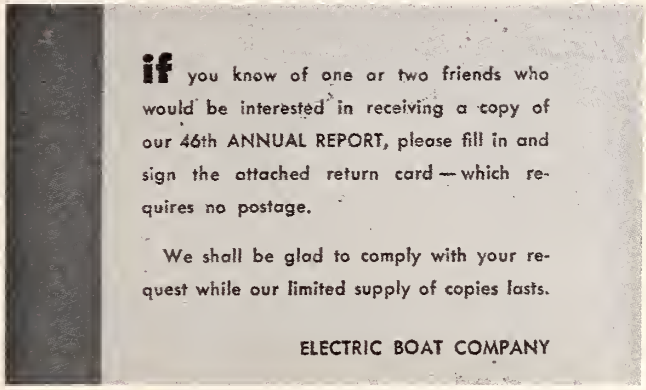
If you wish additional copies of the attached report for your associates, I will try to provide them. I will be very interested in any comments you may have.

Sincerely yours,
Signature
Title

INCREASING DISTRIBUTION OF THE REPORT

To get its report to a large audience, a company may include a business-reply card inviting recipients to fill in the names and addresses of friends who would be interested in receiving a copy of the report. An example of such a card is given below.

[Perforation here]



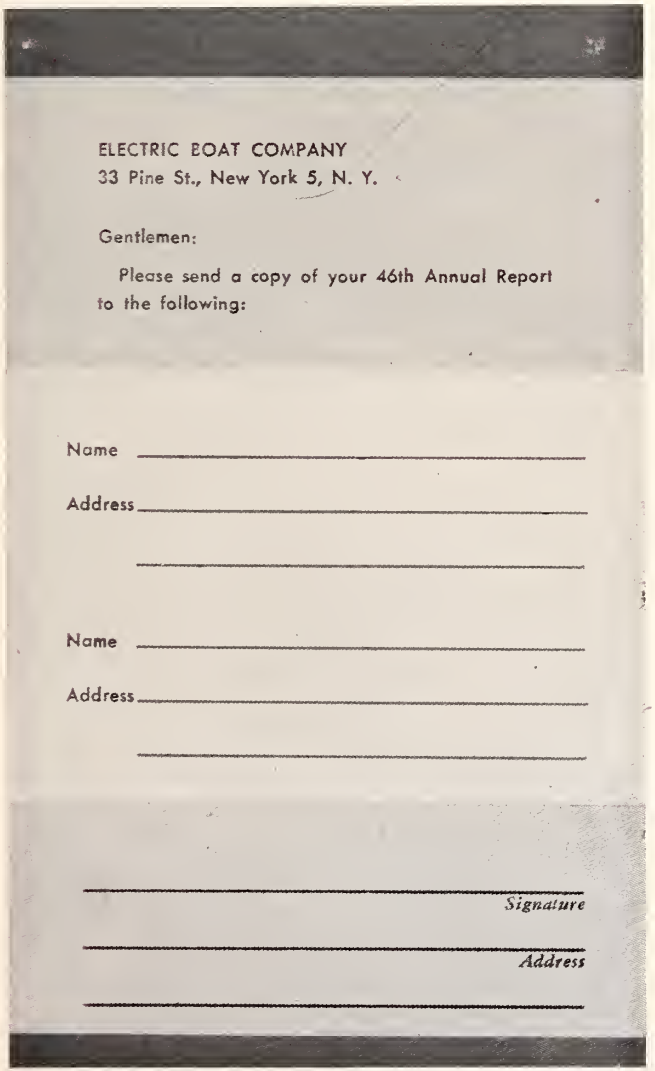
if you know of one or two friends who would be interested in receiving a copy of our 46th ANNUAL REPORT, please fill in and sign the attached return card — which requires no postage.

We shall be glad to comply with your request while our limited supply of copies lasts.

ELECTRIC BOAT COMPANY

These two parts were attached at the perforation.

[Perforation here]



ELECTRIC BOAT COMPANY
33 Pine St., New York 5, N. Y.

Gentlemen:

Please send a copy of your 46th Annual Report to the following:

Name ____________________

Address ____________________

____

Name ____________________

Address ____________________

____

____
Signature

____
Address

____

Courtesy, Electric Boat Company

Fig. 167

PUBLICITY IN THE PRESS

Practically every public-minded company seeks publicity for its annual report and tries to help editors prepare the story. The following description of how the Pennsylvania Railroad Company handles publicity for its annual report has adaptable ideas.

For a great many years the Pennsylvania Railroad System has sent copies of its annual report to daily newspapers—about 850 in 1947—and to railroad, financial and similar publications, a day or so in advance of sending it to stockholders. A release accompanies the report in each instance. This release, prepared by the publicity department, brings out the principal facts regarding earnings, dividends, business done, financial condition of the company and the like. It includes condensations of the most important parts of the president's general remarks. The report and release are brought to the newspapers by local railroad employees—officers, supervisors and others. These employees have been appointed to act for the publicity department in delivering material to the newspapers in their respective communities.

GUIDE FOR WRITING ANNUAL-REPORT RELEASES

Whoever writes the annual-report release should first study annual-report stories in the newspapers to which the release is to be sent. This study will reveal what subjects are considered interesting to the public and how they are treated. Although a different set of facts may be revealed for each newspaper, the study will nevertheless help the publicity department draw up an adequate release —one that will aid the editors in preparing what they want to print.

A study of fifty annual-report stories of industrial companies that were given important space in the financial columns of two leading New York City newspapers, brought out the following facts:

1. A typical story is from five to seven inches long.
2. The larger the corporation, the more likely it is to be given space-preference by the editor. Therefore, if possible, avoid releasing the story the same day that a giant corporation makes its release.
3. Quotes from reports criticizing government policies, favoring particular legislation, point-

ing out injustices to the industry and the like, rarely get into the published story.

4. The following subjects are treated most frequently, in the order mentioned:
    (a) Income and earnings per share, compared with the previous year.
    (b) Gross and net sales, compared with the previous year.
    (c) Current assets and liabilities; working capital.
    (d) Orders on hand and demand for product.
    (e) Plant expansion, modernization and new financing.
    (f) Sales programs.
    (g) Outlook for future.
    (h) Taxes.
    (i) Labor relations, wages and employment.
    (j) Prices.
    (k) Foreign activities.
    (l) Inventories.
    (m) Where the sales dollar went.
    (n) Research.
    (o) New products.
    (p) Nonrecurring items (stock splits, tax refunds, strikes).
5. The lead paragraph in most stories deals with earnings. Sometimes subjects (b), (e) and (g) open the story.
6. Few stories show profits as a percentage of net sales. The remedy is to show this figure prominently in the news release.

RULES FOR PREPARING NEWS RELEASES ON ANNUAL REPORT

When the annual report is ready to be released and the newspapers to which it is to be sent have been selected, the story should be prepared with strict observance of the following rules:

1. Use 8½″ × 11″ paper.
2. Put the name, address and telephone number of the sender and the name of the person responsible for press releases in the upper left-hand corner of the first sheet. Use an identifying, attention-getting letterhead only if a reputation for presenting newsworthy publicity to the editor has been established.
3. Put the release date in the upper right-hand corner. If the story must be held until a certain date, mark it "Release (date)." If it is to be printed at once, mark it "Immediate Release." Specify whether morning or afternoon papers are intended.
4. Leave the top third or half of the first page blank, except for the above information.
5. Do not prepare a carefully balanced headline; the newspaper will do that itself. Just indicate the contents in a short phrase.
6. Double or triple space the copy. Leave wide margins on all sides.
7. Do not split paragraphs from one page to another.
8. Do not make the story too long.
9. Send each paper an original. If there are more than a few papers on the list, mimeograph the release. Do not send carbon copies of typewritten articles.
10. Send a copy of the report along with the release.
11. Address the release to the proper editor by name, if there is no question as to who he is; otherwise, address him by title.

ADVERTISING THE ANNUAL REPORT

More and more companies are publicizing their annual reports through paid advertisements in daily newspapers of general circulation, in special newspapers such as the *Christian Science Monitor* of Boston and the *San Francisco Commercial News,* and in leading financial and commercial dailies such as *The Wall Street Journal,* the New York *Journal of Commerce* and the Chicago *Journal of Commerce.* Space is also frequently taken in magazines with special circulation in the fields of business and finance. Some companies with widely held securities insert advertisements in such foreign papers as *The Statist* and *The Economist,* London publications, and in the Paris, France, issue of the *Herald Tribune.*

The advertisements are not the conventional year-end balance sheets that banks, insurance companies and other financial institutions have been in the habit of publishing to satisfy legal requirements. The modern annual-report advertisement has an attractive layout and interesting copy. It uses the following devices and features of the annual report to gain public attention:

For illustrations. Reproduction of a few charts from the report; the cover; a map; specially prepared cartoons.

For text. Summaries of the year's developments that are of the broadest public interest;

for example, brief paragraphs on net earnings, labor-management relations, production and sales, product developments, research, who owns the company, taxes, retirement of debt, expansion, outlook. The text may refer to some things the balance sheet cannot show, such as achievements of the research laboratory, the policy to produce better products at lower prices or any other intangible "hidden asset."

Statistics. Statistical highlights; simplified income statement, condensed balance sheet; distribution of the income.

RADIO PUBLICITY—TELEVISION

Several years ago when Caterpillar Tractor Co. discussed its annual report in a half-hour radio program on a local station, the president of the company said:[1]

> From many communications, we believe we really did a good job when we went on the air. For instance, a farmer phoned a minute ago and told me that many of his neighbors heard the talk and that they were surprised to learn that the subjects embodied therein were involved in the routine of business. I am quite sure that the report and the broadcast were really helpful ventures in both employee and public relations. Probably you know that Peoria is a town of about 125,000 and we constitute about one-half of the industrial employment and have a high-class, local radio station. This seems to be a combination of circumstances which makes a story such as ours possible.

The reaction of the public to recent annual-report information broadcast on nationwide programs by companies with time on the air has also been good. In these broadcasts, the report is referred to only in the commercial. The radio message is timed to be broadcast after news about the report has been released through the press. The newspapermen must be given an opportunity to use the press releases before the broadcast is made.

The person who writes the commercial messages for the company's regular radio programs prepares the annual-report message as well. The script is invariably approved by a top-ranking officer before it is released—the chairman of the board or the president. The announcement usually builds up listener interest in the beginning. It draws on parts of the report that are of importance to the public, uses brief quotes and gives few statistics.

Two radio messages used by the United States Steel Corporation in 1947 are given below. The response to the first announcements was exceedingly good and the company therefore referred again to the annual report in a succeeding broadcast. The second time, the talk was about research and the announcer merely mentioned that the subject was covered in the annual report.

First Commercial Message as Broadcast

Good evening. During the past week I read a short but extremely interesting book. You won't find it on any list of Fiction or Non-Fiction best-sellers but copies have already gone to over a quarter million eager readers (Pause). I'm talking about United States Steel's Annual Report which is mailed to the Corporation's 225,000 stockholding owners, and is freely available to all of United States Steel's great family of over 275,000 workers, and to the public as well.

In this 36-page report—well illustrated with excellent photographs—United States Steel tells the story of its operations and policies during the difficult reconversion year of 1946. Stockholders are shown with clearly presented facts and figures just how their invested savings were managed in terms of the Corporation's receipts, expenses, and net earnings.

In other words, this "Annual Report" puts all the cards right out on the table in true American style . . . and does the job with clarity, brevity, and simplicity. It tells of the Corporation's activities in research and technology . . . in the improvement of facilities . . . and in sales and distribution. It outlines 1946 development in such matters as Company Pensions and Group Insurance, Veterans back at work, including those physically disabled, and United States Steel's nationally famous Safety and Employee Training Programs.

Yes, these and every other important phase of United States Steel's 1946 operations are covered in the Report. I wish I could tell you more about each of them but time says "No". Instead I'd like to read you just one paragraph—I believe it expresses very clearly the spirit of the entire Report and of the United States Steel Corporation. (Pause) It reads: "United States Steel conformed its activities to the needs of the nation during days of war and it now pledges *anew* the maximum use of its resources to help America develop and prosper during what it hopes may be a lasting period of peace. U. S. Steel—in the discharge of its great responsibility to its stockholders, its employes, and the public—recognizes that U. S. Steel prospers only as the nation prospers."

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[1] *The Annual Report to Stockholders,* Policyholders Service Bureau, Metropolitan Life Insurance Company, p. 80.

Second Commercial Message as Broadcast

The Annual Report of United States Steel of which I spoke a few minutes ago, gives a brief account of the many jobs done by the industrial family that serves the nation . . . the hundreds of different steels and steel products for every American industry, the ships, cement, transportation, bridges, buildings, farm products . . . the thousands of things which United States Steel makes and does.

And one section of the report interested me very much because it dealt with the people who accomplish all those things . . . the 275,000 employees of United States Steel. Today, one out of every four of them is a veteran. Among *all* the workers, United States Steel's training program has been continued vigorously, educating men to do better jobs, and fitting them for higher and more responsible positions.

During the year more than 1800 employees retired on pensions. Their average length of service with United States Steel was 36 years. And during the year, more than 85 per cent of all the employees were insured under the Employees' Group Life Insurance Plan for almost $700,000,000.

As for pay, the average hourly earnings of wage employees in U. S. Steel's steel manufacturing operations, compared with the average hourly earnings of workers in other industries, shows that United States Steel's workers are among the highest paid in American industry. According to figures published by the Government Bureau of Labor Statistics, the average hourly earnings of these U. S. Steel workers in September, 1946, the most recent month compiled, were nineteen and a half per cent higher than the average hourly earnings of workers in all manufacturing industries.

These are a few of the facts about the employees of United States Steel. And they indicate that United States Steel is doing its best to fulfill its responsibility to its employees. Fulfilling its responsibility *to all three groups* . . . the employees, the stockholders, and the public . . . is the major job of the industrial family that serves the nation . . . United States Steel.

For a discussion of how an annual report was televised, see page 241.

AN ANNUAL-REPORT PUBLICITY KIT FOR LOCAL MANAGEMENT

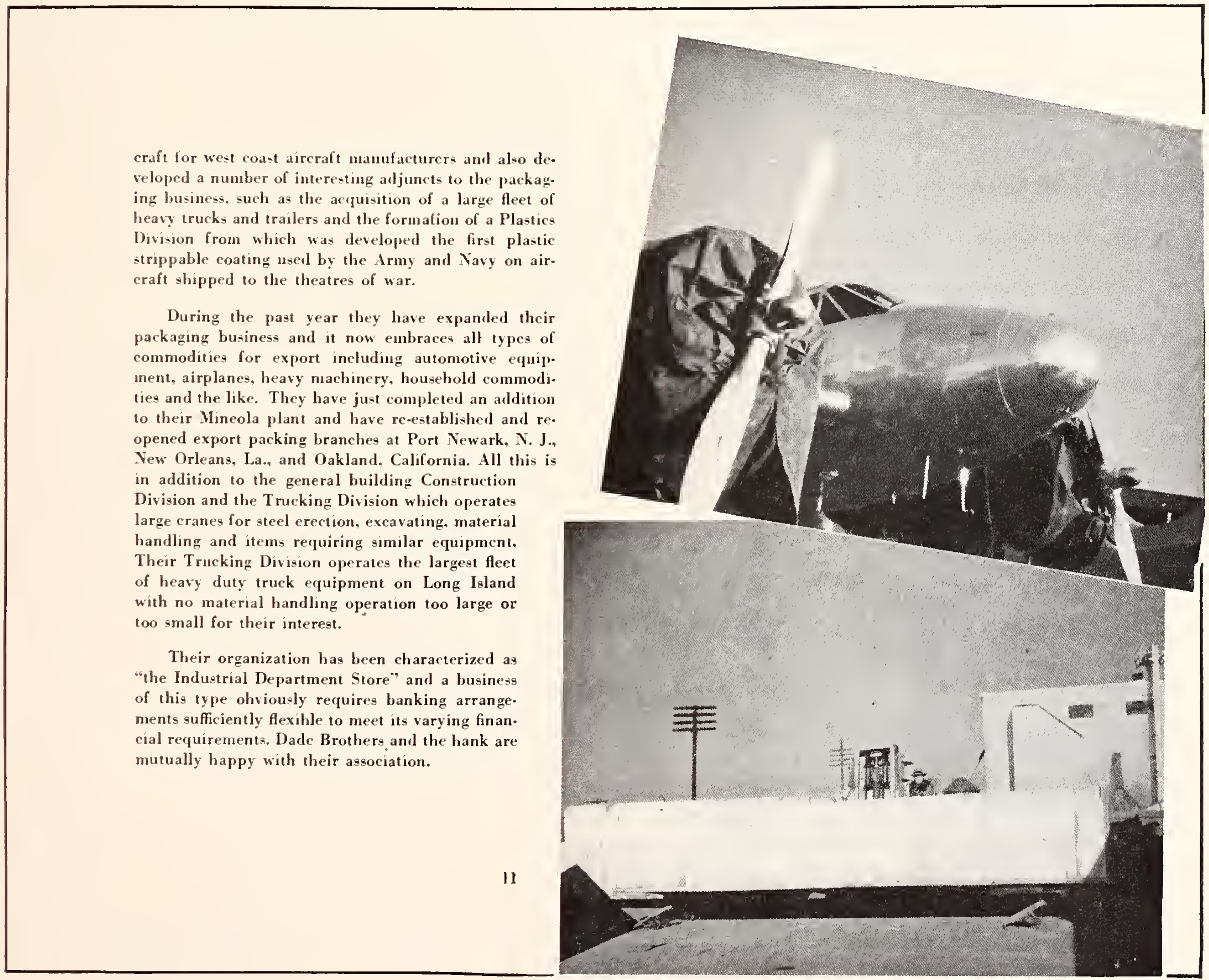
The preparations The Borden Company makes to give publicity to its annual report is an example of careful planning for maximum public-relations benefits. The public relations department prepares an annual-report kit to assist local management in the use of the annual report. The 1946 kit consisted of a manila file-folder labeled "Annual Report—1946" on the tab and "Making Borden's Annual Report Pay PR Dividends" on the face. It contained the following mimeographed material:

1. A PR Memo explaining the purpose of the kit and telling when the report would be shipped to operating units.
2. Suggestions for using the annual-report kit.
3. Form letters for transmitting the report to the various groups mentioned at page 283.
4. A news release for local newspapers.
5. A PR Memo containing information on Borden's disbursements by states, with instructions for use of the material.
6. A schedule of stories, pictures and charts on the annual report for use in employee publications.
7. A sample of Borden's Photo Flash for bulletin boards.

ATTRACTIVE PAGES FROM ANNUAL REPORTS

The illustrations in this chapter show page sizes, column widths and type faces and sizes that have been used successfully in modern annual reports. Many more attractive pages could have been added; obviously, those reproduced do not illustrate all the styles of type or all the techniques and creative ideas that have enhanced the physical appearance of a page of text. The present group, however, is representative of the most effective pages in a recent crop of modern annual reports.

Page size	10″ × 8″
Column width	21 picas and 19 picas
Type	10 pt. Bodoni, 2 pt. lead



craft for west coast aircraft manufacturers and also developed a number of interesting adjuncts to the packaging business, such as the acquisition of a large fleet of heavy trucks and trailers and the formation of a Plastics Division from which was developed the first plastic strippable coating used by the Army and Navy on aircraft shipped to the theatres of war.

During the past year they have expanded their packaging business and it now embraces all types of commodities for export including automotive equipment, airplanes, heavy machinery, household commodities and the like. They have just completed an addition to their Mineola plant and have re-established and reopened export packing branches at Port Newark, N. J., New Orleans, La., and Oakland, California. All this is in addition to the general building Construction Division and the Trucking Division which operates large cranes for steel erection, excavating, material handling and items requiring similar equipment. Their Trucking Division operates the largest fleet of heavy duty truck equipment on Long Island with no material handling operation too large or too small for their interest.

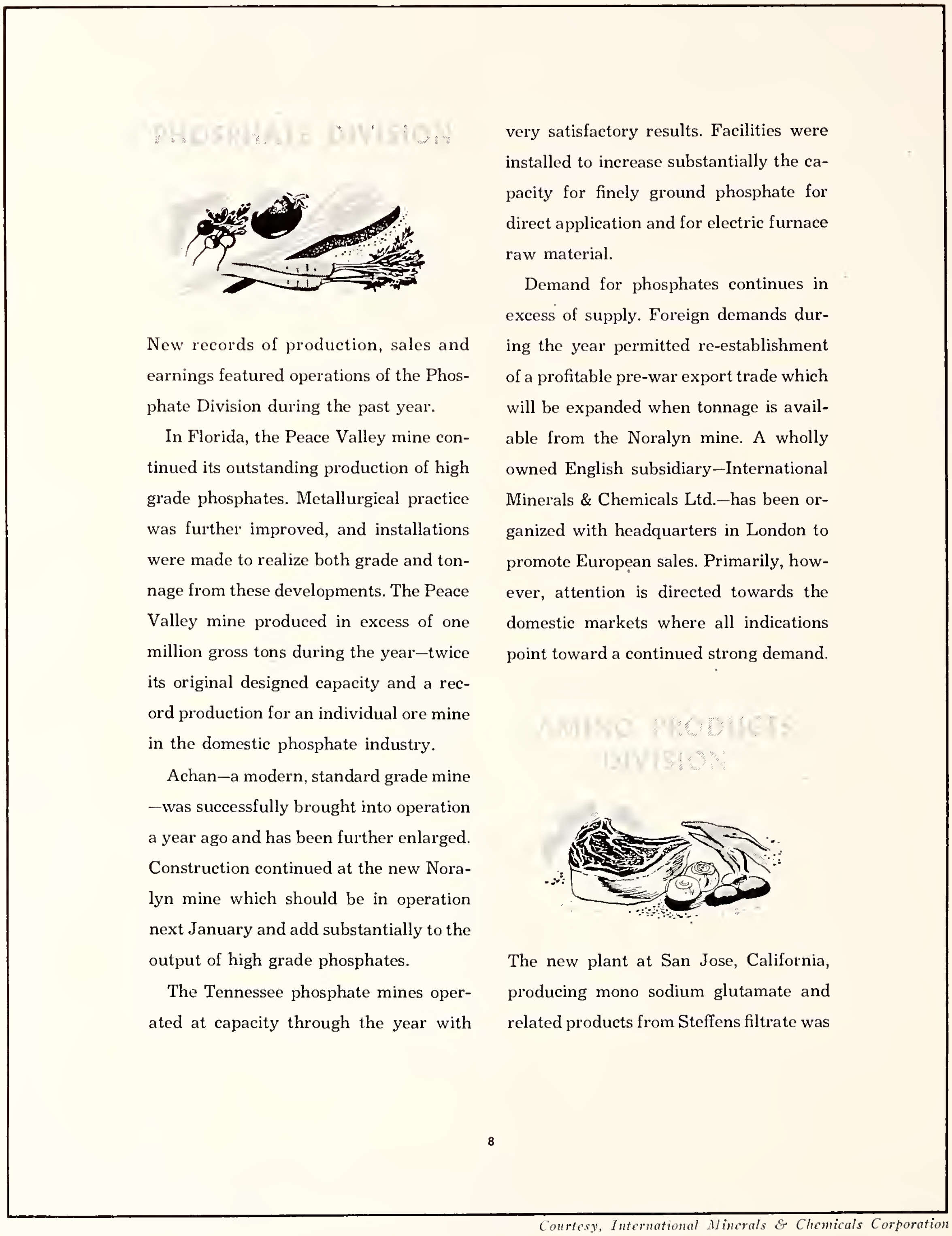
Their organization has been characterized as "the Industrial Department Store" and a business of this type obviously requires banking arrangements sufficiently flexible to meet its varying financial requirements. Dade Brothers and the bank are mutually happy with their association.

11

Courtesy, The Franklin Square National Bank

Fig. 168

Page size	8½″ × 11″
Column width	17½ picas
Type	12 pt. Textype, 8 pt. lead



PHOSPHATE DIVISION

New records of production, sales and earnings featured operations of the Phosphate Division during the past year.

In Florida, the Peace Valley mine continued its outstanding production of high grade phosphates. Metallurgical practice was further improved, and installations were made to realize both grade and tonnage from these developments. The Peace Valley mine produced in excess of one million gross tons during the year—twice its original designed capacity and a record production for an individual ore mine in the domestic phosphate industry.

Achan—a modern, standard grade mine—was successfully brought into operation a year ago and has been further enlarged. Construction continued at the new Noralyn mine which should be in operation next January and add substantially to the output of high grade phosphates.

The Tennessee phosphate mines operated at capacity through the year with very satisfactory results. Facilities were installed to increase substantially the capacity for finely ground phosphate for direct application and for electric furnace raw material.

Demand for phosphates continues in excess of supply. Foreign demands during the year permitted re-establishment of a profitable pre-war export trade which will be expanded when tonnage is available from the Noralyn mine. A wholly owned English subsidiary—International Minerals & Chemicals Ltd.—has been organized with headquarters in London to promote European sales. Primarily, however, attention is directed towards the domestic markets where all indications point toward a continued strong demand.

AMINO PRODUCTS DIVISION

The new plant at San Jose, California, producing mono sodium glutamate and related products from Steffens filtrate was

8

Courtesy, International Minerals & Chemicals Corporation

Fig. 169

Page size	8½″ × 10¼″
Column width	17 picas
Type	11 pt. Beton Medium, 3 pt. lead

Since this composite miner earns an average of more than thirteen dollars for each day worked, he is a payer of income taxes and an important source of purchasing power, as well as an integral self-supporting part of his community. In a great many cases he owns his own home, and only 19 percent of the mine workers rent a house from the company.

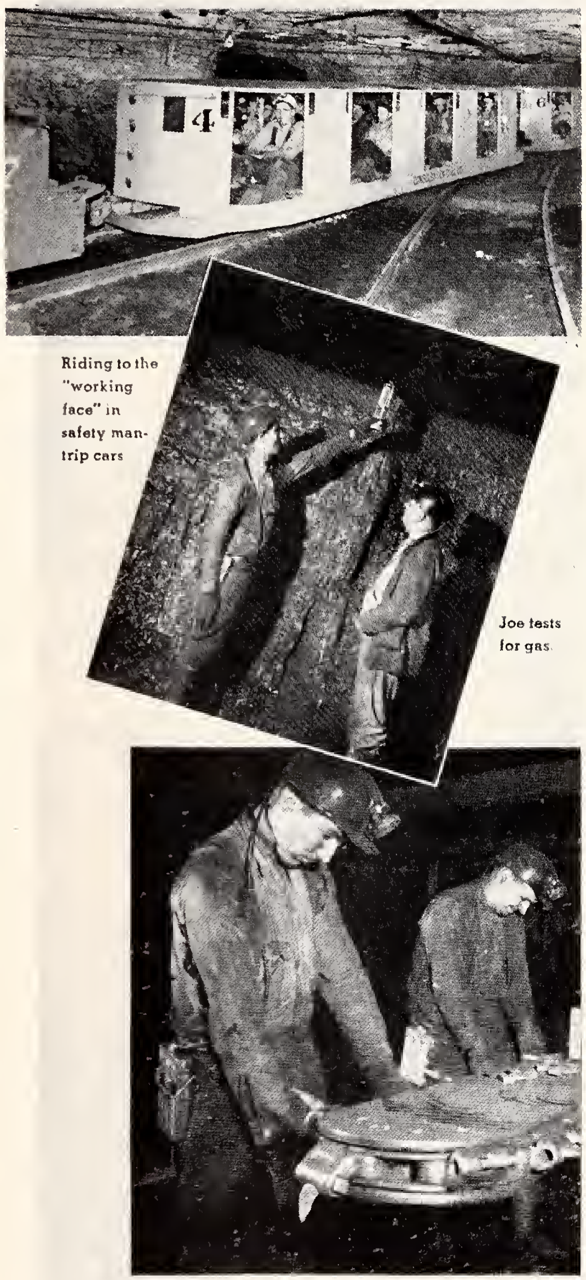
RESULTS FROM 1946 OPERATIONS

Production

The average Pittsburgh Consolidation Coal Company miner produced nearly 1,500 tons of coal during 1946. While this is lower than his performance in 1945, due to the 60 days of lost production involved in the two major strikes which occurred during the year, his efficiency increased and he produced more tons per day actually worked.

This improvement reflects not only the increasing skill of the miner but also the newer and better tools provided by the company. Through its training program the company endeavors to develop the safer and more efficient methods of operation that are possible with new equipment and thereby improve the income and ultimate security of both the miner and the company. In 1946, our average worker at underground mines produced 7.35 tons per day worked as compared with the national average estimated at 5.1 tons.

The company as a whole produced a total of 18,124,157 net tons during 1946. The two strikes mentioned above as well as severe car shortages caused a severe loss of potential production. It is estimated



Riding to the "working face" in safety man-trip cars

Joe tests for gas.

Joe and turnmate, Ralph, set sharpened bits into bar of the cutting machine.

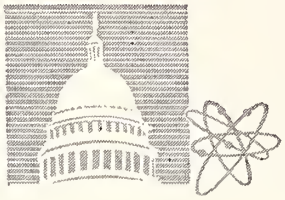
Courtesy, Pittsburgh Consolidation Coal Company

Fig. 170

Page size	7″ × 10″
Column width	30 picas
Type	12 pt. Caledonia, 4 pt. lead

GOVERNMENT BUSINESS

Emerson's Engineering Division is engaged in research and development work under contracts with the Army and the United States Bureau of Standards to perfect and extend the use of electronic equipment for military use. This is a type of peacetime activity in which our Government is greatly interested and we shall continue to maintain a segregated competently staffed and well equipped department for the purpose.



The Company maintained a separate division during the year which acted as a central agent for the War Assets Administration in the disposal of government surplus electronic equipment. Inasmuch as such surplus equipment is almost entirely disposed of, this division will be discontinued early in 1948.

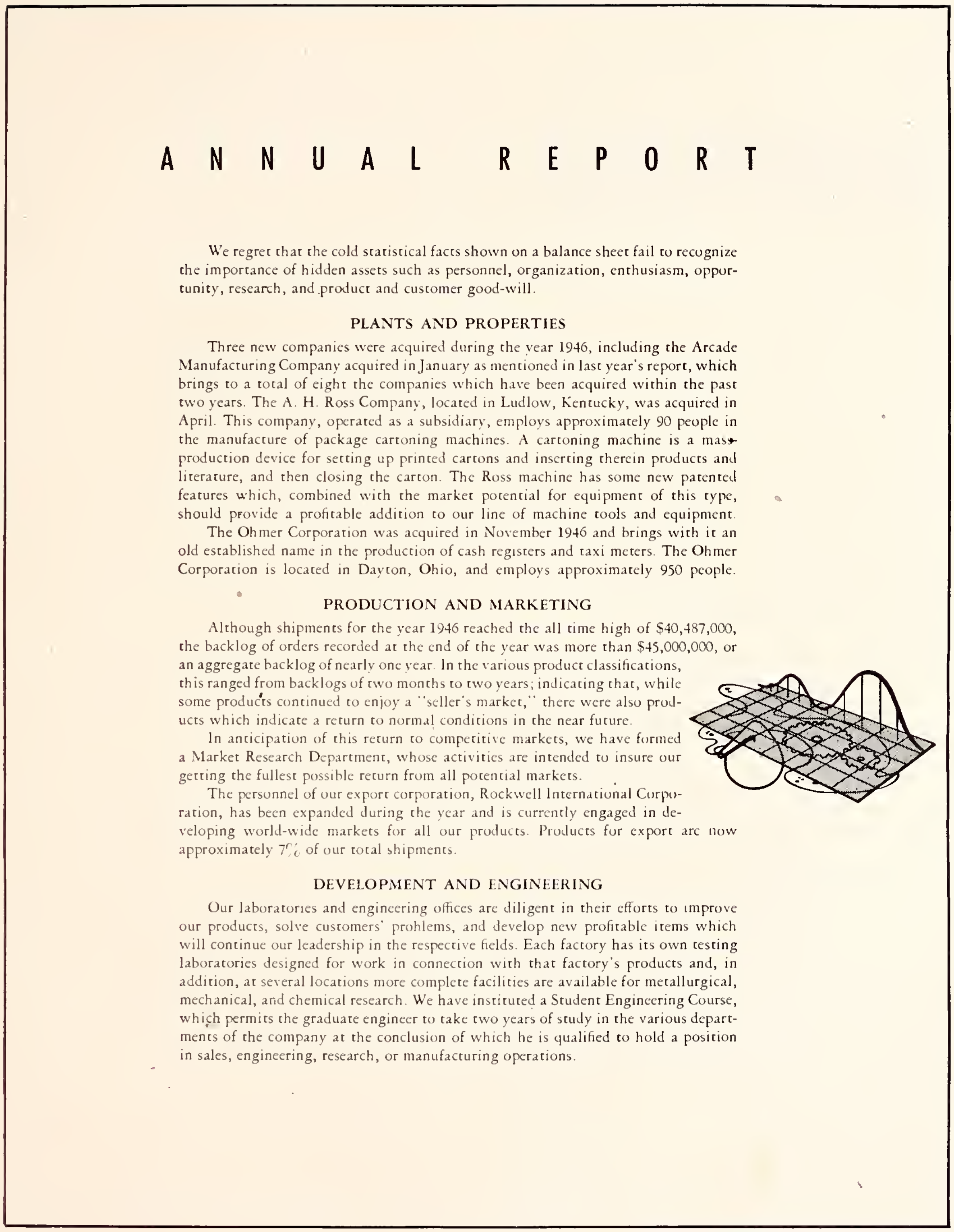
EMPLOYEE RELATIONS

As in the prior year, no work stoppages due to labor dissatisfaction or other causes occurred in the Emerson Radio plant or in the plants of any of its subsidiaries during 1947. The Company concluded a renewal of the contract with the Union representing its factory employees in January, 1947, providing for a wage increase, following the same pattern as

Courtesy, Emerson Radio & Phonograph Corporation

Fig. 171

Page size	8½″ × 11″
Column width	30 picas
Type	10 pt. Garamont, 2 pt. lead



ANNUAL REPORT

We regret that the cold statistical facts shown on a balance sheet fail to recognize the importance of hidden assets such as personnel, organization, enthusiasm, opportunity, research, and product and customer good-will.

PLANTS AND PROPERTIES

Three new companies were acquired during the year 1946, including the Arcade Manufacturing Company acquired in January as mentioned in last year's report, which brings to a total of eight the companies which have been acquired within the past two years. The A. H. Ross Company, located in Ludlow, Kentucky, was acquired in April. This company, operated as a subsidiary, employs approximately 90 people in the manufacture of package cartoning machines. A cartoning machine is a mass-production device for setting up printed cartons and inserting therein products and literature, and then closing the carton. The Ross machine has some new patented features which, combined with the market potential for equipment of this type, should provide a profitable addition to our line of machine tools and equipment.

The Ohmer Corporation was acquired in November 1946 and brings with it an old established name in the production of cash registers and taxi meters. The Ohmer Corporation is located in Dayton, Ohio, and employs approximately 950 people.

PRODUCTION AND MARKETING

Although shipments for the year 1946 reached the all time high of $40,487,000, the backlog of orders recorded at the end of the year was more than $45,000,000, or an aggregate backlog of nearly one year. In the various product classifications, this ranged from backlogs of two months to two years; indicating that, while some products continued to enjoy a "seller's market," there were also products which indicate a return to normal conditions in the near future.

In anticipation of this return to competitive markets, we have formed a Market Research Department, whose activities are intended to insure our getting the fullest possible return from all potential markets.

The personnel of our export corporation, Rockwell International Corporation, has been expanded during the year and is currently engaged in developing world-wide markets for all our products. Products for export are now approximately 7% of our total shipments.

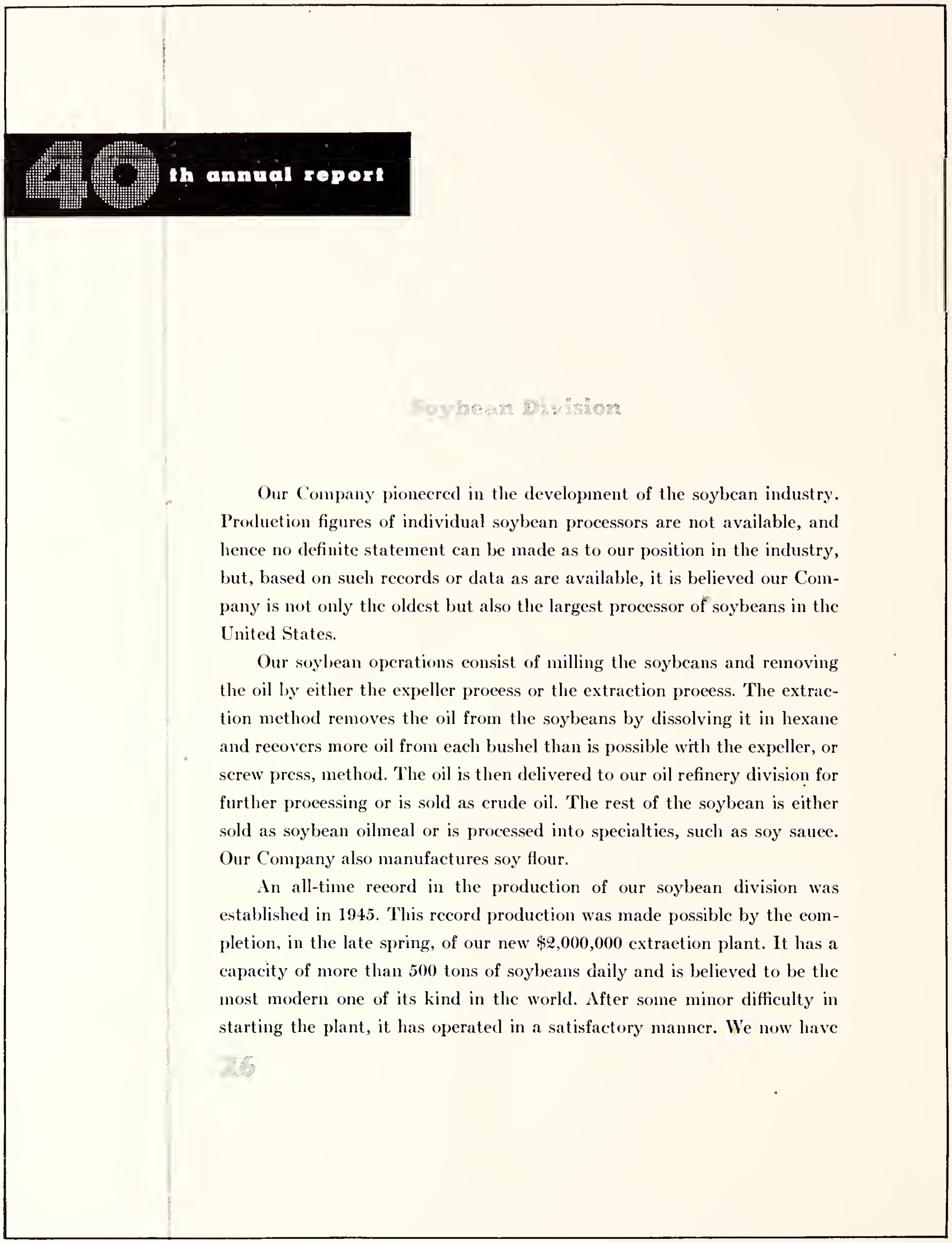
DEVELOPMENT AND ENGINEERING

Our laboratories and engineering offices are diligent in their efforts to improve our products, solve customers' problems, and develop new profitable items which will continue our leadership in the respective fields. Each factory has its own testing laboratories designed for work in connection with that factory's products and, in addition, at several locations more complete facilities are available for metallurgical, mechanical, and chemical research. We have instituted a Student Engineering Course, which permits the graduate engineer to take two years of study in the various departments of the company at the conclusion of which he is qualified to hold a position in sales, engineering, research, or manufacturing operations.

Courtesy, Rockwell Manufacturing Company

Fig. 172

Page size	8½″ × 11″
Column width	33 picas
Type	12 pt. Scotch, 3 pt. lead



40 th annual report

Soybean Division

Our Company pioneered in the development of the soybean industry. Production figures of individual soybean processors are not available, and hence no definite statement can be made as to our position in the industry, but, based on such records or data as are available, it is believed our Company is not only the oldest but also the largest processor of soybeans in the United States.

Our soybean operations consist of milling the soybeans and removing the oil by either the expeller process or the extraction process. The extraction method removes the oil from the soybeans by dissolving it in hexane and recovers more oil from each bushel than is possible with the expeller, or screw press, method. The oil is then delivered to our oil refinery division for further processing or is sold as crude oil. The rest of the soybean is either sold as soybean oilmeal or is processed into specialties, such as soy sauce. Our Company also manufactures soy flour.

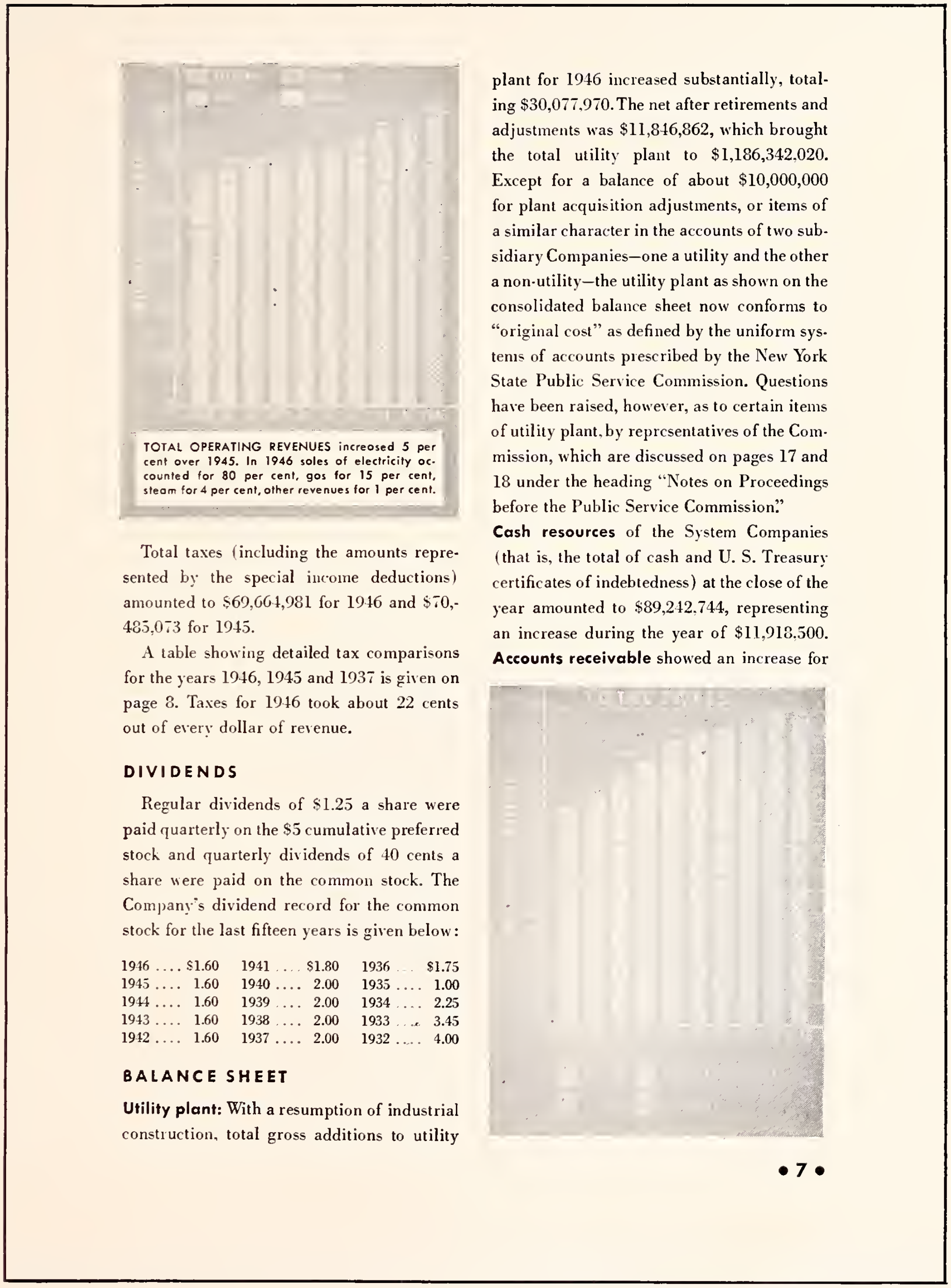
An all-time record in the production of our soybean division was established in 1945. This record production was made possible by the completion, in the late spring, of our new $2,000,000 extraction plant. It has a capacity of more than 500 tons of soybeans daily and is believed to be the most modern one of its kind in the world. After some minor difficulty in starting the plant, it has operated in a satisfactory manner. We now have

26

Courtesy, A. E. Staley Manufacturing Co.

Fig. 173

Page size	7″ × 10″
Column width	15½ picas
Type	10 pt. Bodoni Book, 3 pt. lead



TOTAL OPERATING REVENUES increased 5 per cent over 1945. In 1946 sales of electricity accounted for 80 per cent, gas for 15 per cent, steam for 4 per cent, other revenues for 1 per cent.

Total taxes (including the amounts represented by the special income deductions) amounted to $69,664,981 for 1946 and $70,485,073 for 1945.

A table showing detailed tax comparisons for the years 1946, 1945 and 1937 is given on page 8. Taxes for 1946 took about 22 cents out of every dollar of revenue.

DIVIDENDS

Regular dividends of $1.25 a share were paid quarterly on the $5 cumulative preferred stock and quarterly dividends of 40 cents a share were paid on the common stock. The Company's dividend record for the common stock for the last fifteen years is given below:

1946	$1.60	1941	$1.80	1936	$1.75
1945	1.60	1940	2.00	1935	1.00
1944	1.60	1939	2.00	1934	2.25
1943	1.60	1938	2.00	1933	3.45
1942	1.60	1937	2.00	1932	4.00

BALANCE SHEET

Utility plant: With a resumption of industrial construction, total gross additions to utility plant for 1946 increased substantially, totaling $30,077,970. The net after retirements and adjustments was $11,846,862, which brought the total utility plant to $1,186,342,020. Except for a balance of about $10,000,000 for plant acquisition adjustments, or items of a similar character in the accounts of two subsidiary Companies—one a utility and the other a non-utility—the utility plant as shown on the consolidated balance sheet now conforms to "original cost" as defined by the uniform systems of accounts prescribed by the New York State Public Service Commission. Questions have been raised, however, as to certain items of utility plant, by representatives of the Commission, which are discussed on pages 17 and 18 under the heading "Notes on Proceedings before the Public Service Commission."

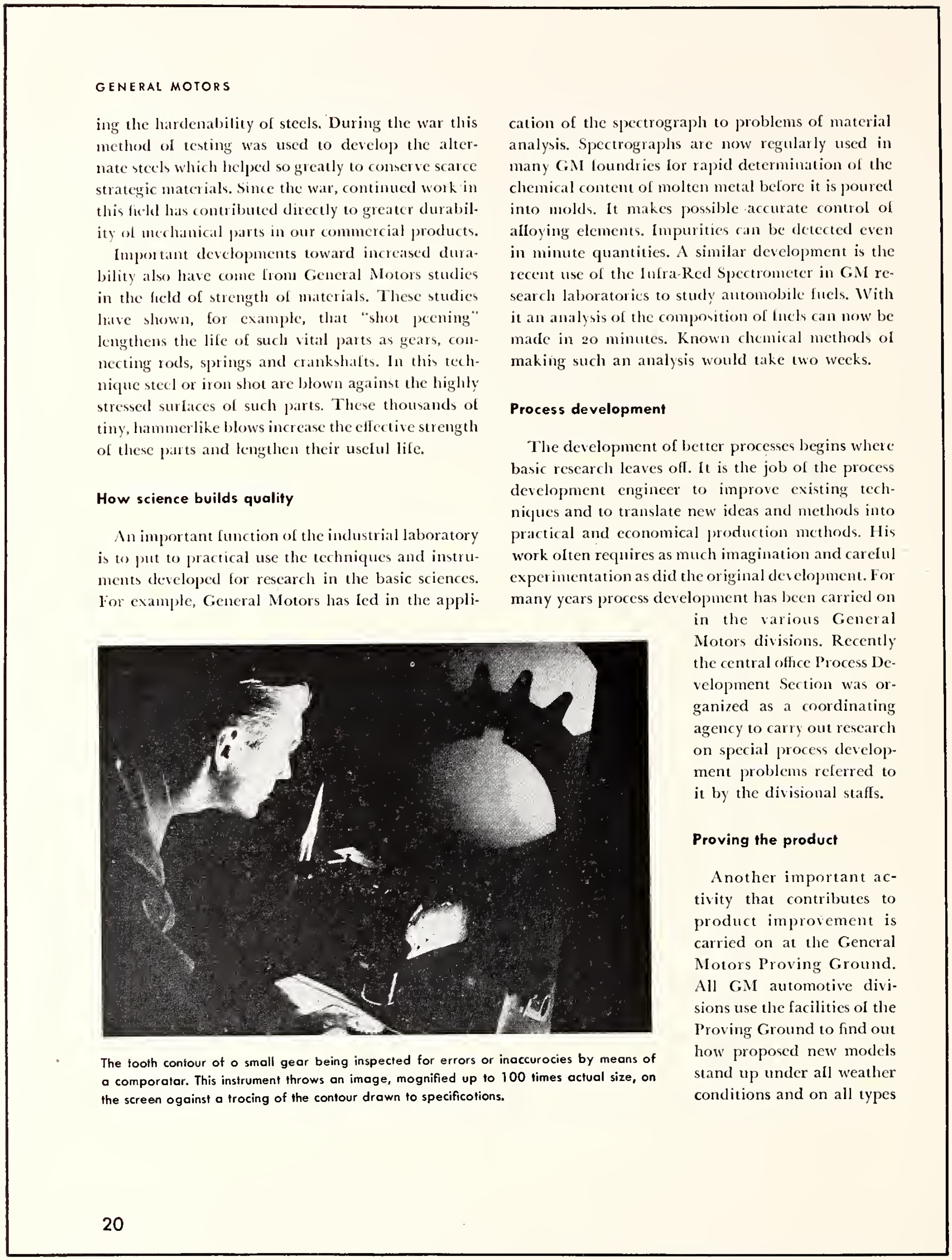
Cash resources of the System Companies (that is, the total of cash and U. S. Treasury certificates of indebtedness) at the close of the year amounted to $89,242,744, representing an increase during the year of $11,918,500. **Accounts receivable** showed an increase for

• 7 •

Courtesy, Consolidated Edison Company of New York, Inc.

Fig. 174

Page size 8″ × 10½″
Column width 19 picas
Type 10 pt. Baskerville, 3 pt. lead



GENERAL MOTORS

ing the hardenability of steels. During the war this method of testing was used to develop the alternate steels which helped so greatly to conserve scarce strategic materials. Since the war, continued work in this field has contributed directly to greater durability of mechanical parts in our commercial products.

Important developments toward increased durability also have come from General Motors studies in the field of strength of materials. These studies have shown, for example, that "shot peening" lengthens the life of such vital parts as gears, connecting rods, springs and crankshafts. In this technique steel or iron shot are blown against the highly stressed surfaces of such parts. These thousands of tiny, hammerlike blows increase the effective strength of these parts and lengthen their useful life.

How science builds quality

An important function of the industrial laboratory is to put to practical use the techniques and instruments developed for research in the basic sciences. For example, General Motors has led in the application of the spectrograph to problems of material analysis. Spectrographs are now regularly used in many GM foundries for rapid determination of the chemical content of molten metal before it is poured into molds. It makes possible accurate control of alloying elements. Impurities can be detected even in minute quantities. A similar development is the recent use of the Infra-Red Spectrometer in GM research laboratories to study automobile fuels. With it an analysis of the composition of fuels can now be made in 20 minutes. Known chemical methods of making such an analysis would take two weeks.

Process development

The development of better processes begins where basic research leaves off. It is the job of the process development engineer to improve existing techniques and to translate new ideas and methods into practical and economical production methods. His work often requires as much imagination and careful experimentation as did the original development. For many years process development has been carried on in the various General Motors divisions. Recently the central office Process Development Section was organized as a coordinating agency to carry out research on special process development problems referred to it by the divisional staffs.

Proving the product

Another important activity that contributes to product improvement is carried on at the General Motors Proving Ground. All GM automotive divisions use the facilities of the Proving Ground to find out how proposed new models stand up under all weather conditions and on all types

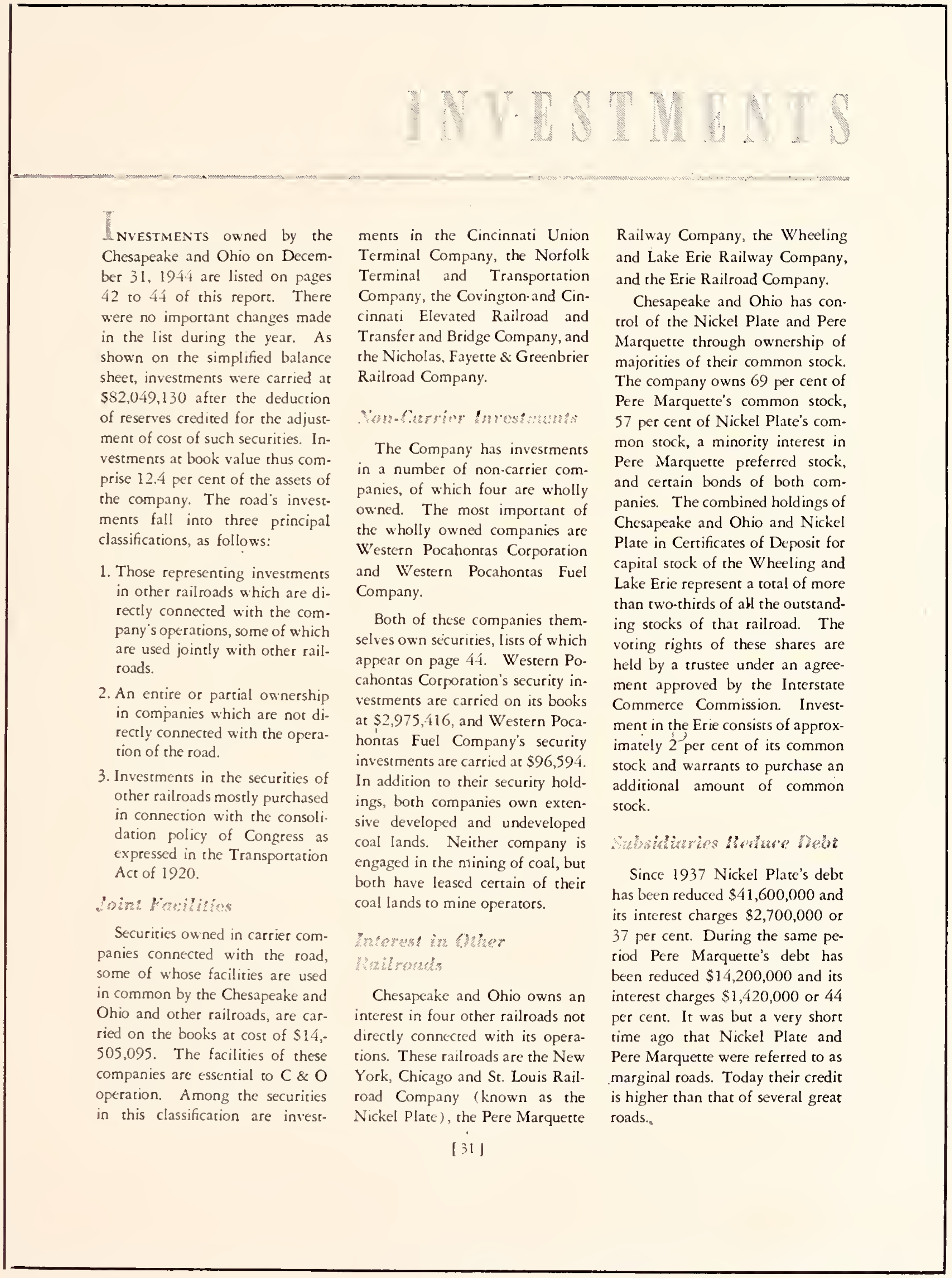
The tooth contour of a small gear being inspected for errors or inaccuracies by means of a comparator. This instrument throws an image, magnified up to 100 times actual size, on the screen against a tracing of the contour drawn to specifications.

20

Courtesy, General Motors Corporation

Fig. 175

Page size	9″ × 12″
Column width	13 picas
Type	12 pt. Garamond, 2 pt. lead



INVESTMENTS

INVESTMENTS owned by the Chesapeake and Ohio on December 31, 1944 are listed on pages 42 to 44 of this report. There were no important changes made in the list during the year. As shown on the simplified balance sheet, investments were carried at $82,049,130 after the deduction of reserves credited for the adjustment of cost of such securities. Investments at book value thus comprise 12.4 per cent of the assets of the company. The road's investments fall into three principal classifications, as follows:

1. Those representing investments in other railroads which are directly connected with the company's operations, some of which are used jointly with other railroads.
2. An entire or partial ownership in companies which are not directly connected with the operation of the road.
3. Investments in the securities of other railroads mostly purchased in connection with the consolidation policy of Congress as expressed in the Transportation Act of 1920.

Joint Facilities

Securities owned in carrier companies connected with the road, some of whose facilities are used in common by the Chesapeake and Ohio and other railroads, are carried on the books at cost of $14,505,095. The facilities of these companies are essential to C & O operation. Among the securities in this classification are investments in the Cincinnati Union Terminal Company, the Norfolk Terminal and Transportation Company, the Covington and Cincinnati Elevated Railroad and Transfer and Bridge Company, and the Nicholas, Fayette & Greenbrier Railroad Company.

Non-Carrier Investments

The Company has investments in a number of non-carrier companies, of which four are wholly owned. The most important of the wholly owned companies are Western Pocahontas Corporation and Western Pocahontas Fuel Company.

Both of these companies themselves own securities, lists of which appear on page 44. Western Pocahontas Corporation's security investments are carried on its books at $2,975,416, and Western Pocahontas Fuel Company's security investments are carried at $96,594. In addition to their security holdings, both companies own extensive developed and undeveloped coal lands. Neither company is engaged in the mining of coal, but both have leased certain of their coal lands to mine operators.

Interest in Other Railroads

Chesapeake and Ohio owns an interest in four other railroads not directly connected with its operations. These railroads are the New York, Chicago and St. Louis Railroad Company (known as the Nickel Plate), the Pere Marquette Railway Company, the Wheeling and Lake Erie Railway Company, and the Erie Railroad Company.

Chesapeake and Ohio has control of the Nickel Plate and Pere Marquette through ownership of majorities of their common stock. The company owns 69 per cent of Pere Marquette's common stock, 57 per cent of Nickel Plate's common stock, a minority interest in Pere Marquette preferred stock, and certain bonds of both companies. The combined holdings of Chesapeake and Ohio and Nickel Plate in Certificates of Deposit for capital stock of the Wheeling and Lake Erie represent a total of more than two-thirds of all the outstanding stocks of that railroad. The voting rights of these shares are held by a trustee under an agreement approved by the Interstate Commerce Commission. Investment in the Erie consists of approximately 2½ per cent of its common stock and warrants to purchase an additional amount of common stock.

Subsidiaries Reduce Debt

Since 1937 Nickel Plate's debt has been reduced $41,600,000 and its interest charges $2,700,000 or 37 per cent. During the same period Pere Marquette's debt has been reduced $14,200,000 and its interest charges $1,420,000 or 44 per cent. It was but a very short time ago that Nickel Plate and Pere Marquette were referred to as marginal roads. Today their credit is higher than that of several great roads.

[31]

Courtesy, Chesapeake & Ohio Railway Company

Fig. 176

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